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IN THE

Supreme Court of the United States

October Term, 1981

DARBY DRUG CO., INC., INWOOD LABORATORIES INCORPORATED, MD PHARMACEUTICAL COMPANY, INC., PREMO PHARMACEUTICAL LABORATORIES, INC., RUGBY LABORATORIES, INC., and SHERRY PHARMACEUTICAL CO., INC.,

Petitioners,

v.

IVES LABORATORIES, INC.,

Respondent.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

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Questions Presented

1. Whether a manufacturer of cyclandelate, a prescription drug sold in blue and blue/red capsules, can be granted a monopoly of the colors blue and blue/red for use on cyclandelate capsules.

This question arises because the Respondent, a brand name drug company which developed and patented cyclandelate, has obtained an injunction* against Petitioners' use of blue and blue/red on cyclandelate capsules, although the patent for cyclandelate has expired and the blue and blue/red colors are neither a trademark for Respondent's cyclandelate, nor patented.

2. Whether Petitioners, who are manufacturers and wholesalers of generic prescription drugs, are liable for "contributory trademark infringement" based solely on a finding that they could have anticipated that retail pharmacists would mislabel Petitioners' cyclandelate, or substitute Petitioners' cyclandelate for the Respondent's brand name cyclandelate.

This question arises because the Petitioners were found liable for "contributory trademark infringement" based solely on evidence that Petitioners sold cyclandelate in capsules that simulated the appearance of Respondent's brand name cyclandelate capsule and promoted their generic product as equivalent to the brand name product (which it was) and that 25 retail pharmacists mislabeled generic

* Respondent has also been awarded damages and Petitioners' profits resulting from Petitioners' sale of cyclandelate in blue and blue/red capsules.

cyclandelate as Respondent's brand name cyclandelate. Fifteen (15) of these pharmacists, who were known by Respondent to have a propensity for palming-off, substituted generic cyclandelate in filling prescriptions for the Respondent's brand name cyclandelate. This finding of "contributory trademark infringement" was made by the appellate court despite the trial court's findings that Petitioners had no knowledge of the mislabeling or palming-off, that the Petitioners properly labeled the generic cyclandelate they sold to retail pharmacists, that mislabeling and palming-off were not shown to be widespread, that the look-alike colors of the generic product were used by Petitioners because the colors were functional and that the Petitioners did nothing to encourage or suggest that retail pharmacists mislabel or palm-off the generic drug product.

3. Whether generic drug manufacturers and wholesalers should be enjoined from using the colors of the brand name drug product in manufacturing and marketing a generic equivalent, where the trial court found that the colors have therapeutic functions and are a significant factor in the commercial success of the product, and where the public policy of state law encourages the use of generic drug products in order to reduce the cost of health care for their citizens.

This question arises because the appellate court disregarded the trial court's factual findings, based on the testimony of doctors, pharmacists and businessmen in the drug industry, that the colors of the drug capsules were therapeutically functional, and an important ingredient of their commercial success. The appellate court did *not* rule that

the trial judge's findings of fact were clearly erroneous, but disregarded them as "unconvincing" because the evidence introduced by Petitioners was not "persuasive" to a majority of the appellate court. Thus an injunction has issued forbidding Petitioners from making or selling their lower cost generic cyclandelate in blue and blue/red capsules; which coloring is useful to patients and doctors, and important in marketing the product.

Parties to Proceeding Below

The parties to the proceeding in the United States Court of Appeals for the Second Circuit, whose judgment is sought to be reviewed, are Ives Laboratories, Inc. (Plaintiff-Appellant below, Respondent hereto) and Darby Drug Co., Inc., Inwood Laboratories Incorporated, MD Pharmaceutical Company, Inc., Premo Pharmaceutical Laboratories, Inc., Rugby Laboratories, Inc. and Sherry Pharmaceutical Co., Inc. (Defendants-Appellees below, Petitioners hereto).

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Opinions Below

There are five opinions below, four of which have been officially reported. They are:

(a) The opinion of the United States District Court for the Eastern District of New York, denying the Respondent's motion for a preliminary injunction, set forth in Appendix A.* 455 F. Supp. 939 (1978)

* The Appendix referred to herein has been submitted by petitioners Inwood Laboratories Incorporated and Premo Pharmaceutical Laboratories, Inc., together with their separate petition. Numbers in parentheses followed by the letter "a" are references to page numbers in the Appendix.

(b) The opinion of the Court of Appeals for the Second Circuit affirming the District Court's denial of Respondent's motion for a preliminary injunction, set forth in Appendix B. 601 F.2d 631 (1979)

(c) The opinion of the United States District Court for the Eastern District of New York dismissing the Respondent's complaint after trial, set forth in Appendix C. 488 F. Supp. 394 (1980)

(d) The opinion of the Court of Appeals for the Second Circuit reversing the District Court's dismissal of the Respondent's complaint and remanding the case to the District Court, set forth in Appendix D. 638 F. 2d 538 (1981)

(e) The memorandum opinion and order of the United States District Court for the Eastern District of New York dated May 12, 1981, issued pursuant to the mandate of the United States Court of Appeals for the Second Circuit (78 Civ. 372) are unreported. They are set forth in Appendix F.

Jurisdiction

The judgment of the United States Court of Appeals for the Second Circuit was entered on January 8, 1981, and an order of said court denying Petitioners' petition for rehearing was filed on February 25, 1981. On May 13, 1981, Justice Thurgood Marshal of the United States Supreme Court signed an order extending Petitioners' time to file this Petition for Writ of Certiorari to June 25, 1981.

The jurisdiction of the United States Supreme Court is invoked under the provisions of Title 28, United States Code, §1254(1).

Constitutional Provisions and Statutes Involved

United States Constitution:

Article I, Section 8, Clause 8

First Amendment

The statutes which this case involves are as follows:

The Lanham Trademark Act of 1946 (herein "The Lanham Act"):

§32, 15 U.S.C. §1114
§43(a), 15 U.S.C. §1125(a)

New York Education Law (McKinney's):

§6810
§6815 (2) (h) and (j)
§6816
§6816-a

New York Public Health Law (McKinney's):

§206 (1)(o)

These stautes are set forth in Appendix G.

Statement of the Case

a. Jurisdiction and Procedural Background

The federal courts have jurisdiction of this case pursuant to 28 U.S.C. §§1331 and 1338. (56a)

The Respondent, Ives Laboratories, Inc. ("Ives"), which makes and sells the prescription drug cyclandelate under the trademark Cyclospasmol brought this action seeking an injunction and related relief against Petitioners (sometimes referred to herein as defendants) who make and sell cyclandelate under its generic name, based upon claimed violations of §§32 and 43(a) of the Lanham Act (15 U.S.C. §§1114 and 1125(a)) and the New York State law of unfair competition. Ives sought a preliminary injunction which was denied by the district court (455 F. Supp. 939, Appendix A). The denial of a preliminary injunction was affirmed by the Court of Appeals for the Second Circuit (601 F.2d 631, Appendix B). The district court dismissed the complaint after trial (488 F. Supp. 394, Appendix C) and Ives appealed. The appellate court reversed the district court's dismissal of the complaint (638 F.2d 538, Appendix D) and remanded the case to the district court with a mandate to grant relief consistent with the opinion of the appellate court. On remand, the district court granted Ives an injunction, damages, defendants' profits and a recall of defendants' product. (Appendix F)

Petitioners seek review of the judgment of the Court of Appeals for the Second Circuit (Appendix D) which reversed the trial court's dismissal of Ives' complaint.

b. Factual Background

The drug cyclandelate, a white powder, is a peripheral vasodilator claimed to produce an increase in blood flow and thereby inhibit the progressive conditions caused by certain vascular diseases which tend to occur in the aged. Cyclandelate is therefore prescribed for a long period of time, generally for the rest of the patient's life. For some years, Ives, its predecessors and its parent company, American Home Products Corporation, have sold the drug under the mark Cyclospasmol and, until the patent on cyclandelate expired on April 26, 1972, had the exclusive right to make and sell the drug in the United States. Ives has been marketing 200 mg. dosages in a pale blue capsule imprinted "Ives 4124" since 1962, and 400 mg. dosages in red and blue capsules imprinted "Ives 4148" since 1975. (56a-57a)

Because the drug may be dispensed only on prescription, Ives has directed its promotion primarily to physicians. Some 230 salesmen called "detail" men have made personal visits to doctors and distributed samples and promotional materials. (57a)

Of the defendants, three are manufacturers: Premo Pharmaceutical Laboratories, Inc. ("Premo"), Inwood Laboratories, Incorporated ("Inwood"), and MD Pharmaceutical Company, Inc. ("MD"). All three purchase cyclandelate and empty capsules, and assemble the product for sale to wholesalers and hospitals. Inwood and MD also sell to retail pharmacies. Premo and Inwood sell 200 mg. and 400 mg. capsules in colors identical to those used by Ives. MD does the same with 200 mg. capsules. Defendants, Darby Drug Co., Inc., Rugby Laboratories, Inc., and Sherry

Pharmaceutical Co., Inc. (collectively "the wholesalers") purchase capsules of the kind made by the manufacturers and sell them primarily to physicians and pharmacies. (57a)

The defendants promote their generic product as comparable, similar or equivalent to Cyclospasmol in price lists and catalogs distributed to their customers.* Defendants do not utilize salesmen or "detail" men who visit their customers, as does Ives. Some of defendants' catalogs refer to the color of the capsules. Defendants' names appear on their packages of cyclandelate capsules. (57a, 58a)

The defendants' cyclandelate and Ives' Cyclospasmol are delivered to pharmacists in bottles containing the name of product and the name of the seller. Ives bottles identify its cyclandelate with the brand name Cyclospasmol. The bottles are opened by the pharmacists and the capsules transferred to smaller containers which bear the pharmacists' own label and are dispensed to consumers. (58a)

The New York Education Law defines a pharmacist's obligations in dispensing prescription drugs. The relevant provisions require a doctor's prescription form to state that it will be filled with a generic product unless the doctor prescribes by brand name and signs the form over the line stating "dispense as written". (Education Law §6810(6)) If the doctor signs over the other signature line on the prescription form, which reads "substitution permissible," the druggist must dispense a less expensive drug having the same active ingredients, provided that drug appears on a

* There was no proof at trial that defendants' cyclandelate had any different therapeutic effect than Ives' Cyclospasmol brand cyclandelate, and that was not an issue in the case.

list maintained by the State for such purpose. (Education Law §6816-a(1)) If the drug is not on the list, the druggist may, but is not required to, substitute the less expensive generic drug. (58a)

The label placed on the bottle by the druggist must contain the brand name of the drug, if it has one, or the generic name and the name of the manufacturer. (Education Law §6816(a)) Therefore, a druggist dispensing Ives' Cyclospasmol brand cyclandelate must put "Cyclospasmol" on the label. However, if cyclandelate as sold by the defendants is dispensed, the label must state the word "cyclandelate" and the name of the manufacturer (e.g., "cyclandelate Premo"). (58a)

Violation of the Education Law subjects a pharmacist to criminal law penalties and loss of his license. (Education Law §6816(1)(a)) (116a, 117a)

c. Capsule Colors Are Not an Ives Trademark.

Ives claimed that the defendants use of look-alike capsules constituted a false designation of origin in violation of Section 43(a) of the Lanham Act, 15 U.S.C., §1125(a). The trial court rejected this contention on two grounds. Firstly, the trial court found the colors to be functional and therefore not entitled to trademark protection. (63a) Secondly, the court noted that even if the colors were not functional, Ives failed to show that they acquired secondary meaning, i.e., Ives did not demonstrate that patients identified the capsule colors with the source of the medication. (64a) There being no showing that capsule colors designate origin, the use of look-alike capsules by the defendants did not constitute a false designation of origin under §43(a). This finding by the trial court was not discussed or reversed by the court of appeals. (Appendix D)

d. The Charge of Contributory Trademark Infringement

Ives claims that a significant number of pharmacists palm off defendants' cyclandelate capsules in filling prescriptions for Cyclospasmol, and use Ives' trademark "Cyclospasmol" on the labels of bottles containing generic cyclandelate. Ives also claims that a significant number of pharmacists mislabel generic cyclandelate as Cyclospasmol when filling prescriptions calling for generic cyclandelate. This misuse of Ives' trademark, Cyclospasmol, by pharmacists engaging in the practice of illegal substitution and mislabeling, constitutes a violation of §32 of the Lanham Act. (110a, 111a)

Ives makes no claim against the offending pharmacists, but charges that the defendants contribute to those forms of trademark infringement by selling cyclandelate in capsules that are blue and blue/red, similar in appearance to Cyclospasmol capsules, and by promoting the sale of generic cyclandelate in catalogs and price lists stating defendants' product to be equivalent to Cyclospasmol. Ives claims that these activities alone constitute contributory trademark infringement making the defendants violators of §32 of the Lanham Act. (76a) There was no evidence that any defendant suggested illegal substitution or mislabeling to any pharmacist. In fact, defendants have no salesmen or "detail" men who visit pharmacies and were not shown to have knowledge of, or reason to know of, any pharmacist engaging in illegal substitution or mislabeling. (59a)

The only other evidence presented by Ives to support its claim of contributory trademark infringement was (a) the results of a nationwide shopping investigation which

disclosed only fifteen instances of illegal substitution, and (b) the results of a New York State survey which showed that ten pharmacists out of 83 mislabeled the product by using the name Cyclospasmol on bottles containing generic cyclandelate. (59a-60a)

The fifteen instances of illegal substitution were obtained in an uncontrolled nationwide investigation conducted by Ives' employees and "detail" men. The "detail" men were instructed to submit prescriptions for Cyclospasmol to pharmacies which Ives knew had a propensity to palm off generic products for expensive brand name products. (60a)

The ten instances of mislabeling were obtained in a survey involving prescriptions for Cyclospasmol signed on the line stating "substitution permitted" which were submitted to 83 pharmacists. Ten pharmacies mislabeled the generic product by using the word Cyclospasmol on the label, however five of these also indicated on the label that a generic form of Cyclospasmol was being dispensed, by using the phrase "generic Cyclospasmol" or the like. Nine of the ten pharmacies which mislabeled, informed the purchaser that generic cyclandelate was being dispensed, and only one pharmacy appeared to have charged the higher Cyclospasmol price for the generic product. (60a)

Although it was conceded by most of the defendants that using look-alike capsules could facilitate illegal substitution of a generic product in filling a prescription calling for a brand name product by pharmacists having a desire to engage in such activity, there was no evidence to connect the use of look-alike capsules to the instances of substitution or mislabeling described above.

With respect to the question of whether illegal substitution of generic products for brand name products was a widespread practice, the President of the New York State Pharmaceutical Society, called as a witness by Ives, testified that he did not believe the practice to be widespread (638 F.2d 538 at p. 545). (85a)*

The testimony of three doctors and two pharmacists called as witnesses for the defense showed that the color of drug capsules used in connection with long-term, maintenance medication relieves patient anxiety by assuring the patient that he is receiving the same medication he has previously received, avoids confusion among patients who take various types of medication in a single day, aids communication between doctors and patients in discussing the effects of medication and instructions for its use, and aids in identifying medication consumed by patients in emergency situations. Several witnesses, including one of the pharmacists referred to above and a businessman employed by a generic drug company, testified to the difficulty in marketing generic products which differed in appearance from the brand name product containing the same active ingredient. Such generic products which differ in appearance from the related brand name product are not readily accepted in the marketplace. The trial court made a factual finding that the colors of the drug product were functional, based upon the testimony described above (488 F. Supp. 394 at 398-399). (63a)

The evidence presented by defendants that capsule colors are functional is related to Ives' charge of contributory trademark infringement under §32 of the Lanham

* Mr. Lawler was Ives' witness. The error in the printed opinion has been corrected.

Act (15 U.S.C. 1125) because such evidence disputes Ives' claim that the use of look-alike capsules was undertaken by the defendants for the purpose of suggesting illegal substitution and mislabeling to pharmacists.

e. Judicial Standard of Contributory Trademark Infringement

In his opinion affirming the initial decision of the District Court (which denied Ives' motion for a preliminary injunction, 455 F. Supp. 939), Judge Friendly writing for the Second Circuit attempted to establish guidelines for determining liability under the doctrine of contributory trademark infringement. (34a, 35a)

The trial judge had defined contributory trademark infringement as "the knowing and deliberate instigation of such a practice" (455 F. Supp. at 945). Judge Friendly found that definition too narrow, and defined the doctrine for the edification of the trial court as follows:

> ". . . a manufacturer or wholesaler would be liable under §32 if he suggested, even if only by implication, that a retailer fill a bottle with the generic capsules and apply Ives' mark to the label, or continued to sell capsules containing the generic drug which facilitated this to a druggist whom he knew or had reason to know was engaging in the practices just described. The proper criteria are stated in *Coca-Cola Co.* v. *Snow Crest Beverages, Inc.*, 64 F. Supp. 980, 989 (D. Mass. 1946) (Wyzanski, J.), affd., 162 F.2d 280 (1 Cir.), cert. denied, 332 U.S. 809 (1947)." 601 F.2d at 636 (35a)

After trial, the District Court considered whether the defendants' acts of selling look-alike generic cyclandelate

capsules and promoting them in catalogs as equivalent to Ives' Cyclospasmol brand cyclandelate, taken together with the proof of mislabeling and illegal substitution described above, constituted contributory trademark infringement. Using Judge Friendly's definition, the trial court found that:

> ". . . defendants did not suggest, even by implication, that pharmacists fill bottles with the generic drug cyclandelate and apply trademark Cyclospasmol. Nor did Ives show that defendants continued to sell the generic drug to pharmacists who defendants knew or had reason to know were engaging in such a practice. 601 F.2d at 636." 488 F. Supp. at 397 (59a)

On appeal after trial, Judge Mansfield, writing for a majority of the Second Circuit, reversed this finding of the trial court and found defendants liable for contributory trademark infringement. In doing so, the court revised and expanded the doctrine of contributory trademark infringement set down by Judge Friendly, finding the defendants liable because they:

> "could reasonably anticipate that their generic drug product would by a substantial number of druggists be substituted illegally for Ives' trademarked CYCLOSPASMOL or that bottles of their lower-priced product might be mislabeled as CYCLOSPASMOL, all to the druggists' economic advantage. This amounted to a suggestion, at least by implication, that the druggists take advantage of the opportunity to engage in such misconduct." 638 F.2d at 543 (82a, 83a)

In order to find the defendants liable for contributory trademark infringement, even under its expanded standard, the majority disregarded the trial court's factual finding

that the capsule colors were functional. Without holding that finding to be "clearly erroneous", Judge Mansfield dismissed it as "unconvincing". 638 F.2d at 544. (84a, 85a) By thus disregarding the defendants' reasons for using look-alike capsules, the Second Circuit supported its opinion that the defendants did so only to suggest that pharmacists mislabel the generic drug product.*

On remand, Judge Nickerson decided that the majority opinion of the Court of Appeals required him to grant a permanent injunction giving Ives a monopoly over the colors blue and blue/red for capsules containing cyclandelate. Judge Nickerson also awarded Ives a recall of defendants' product, damages and defendants' profits. (98a)

Reasons for Granting the Petition

Certiorari should be granted in order to determine:

1. The extent to which federal courts may grant a monopoly to products which are neither protected by patent or trademark under the Lanham Act.

2. The limits of the doctrine of contributory infringement under the Lanham Act.

3. The extent to which the public policy of States to encourage the use of lower priced generic drugs requires generic drug manufacturers be allowed to make drugs which look like brand name drugs.

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* The majority also reinforced its holding that the defendants could reasonably anticipate mislabeling by pharmacists, by considering evidence of unproved indictments then pending in the New York State criminal courts. 638 F.2d at 544 (84a)

I. The Creation of a Monopoly

Defendants have been enjoined from making and selling capsules of generic cyclandelate in the same color as Ives' Cyclospasmol. Ives' coloring was not trademarked (indeed would not qualify for trademark) and did not attain secondary meaning.

Nevertheless, the Second Circuit enjoined the defendants' use of blue and blue/red cyclandelate capsules, ruling:

> "By using capsules of identical color, size and shape, together with a catalog describing their appearance and listing comparative prices of Cyclospasmol and generic cyclandelate, appellees could reasonably anticipate that their generic drug product would by a substantial number of druggists be substituted illegally for Ives' trademarked CYCLOSPASMOL or that bottles of their lower priced product might be mislabeled as Cyclospasmol, all to the druggists' economic advantage. This amounted to a suggestion, at least by implication, that the druggist take advantage of the opportunity to engage in such misconduct. By using look-alike capsules appellees also reduced the likelihood that patients who were given a generic substitute would bring that fact to their doctor's, (or their druggist's) attention. Similar activity has been enjoined as enabling druggists to defrand by palming off .... We think appellees' activity should be enjoined as well." 638 F.2d at 543 (82a, 83a)

While the court was justifiably concerned about protecting consumers from those few pharmacists who charge the brand name price and dispense the generic drug, the effect

of the court's decision grants the brand name company a monopoly over a functional aspect of the product. This will inure only to the economic advantage of Ives, whose patent monopoly is, in effect, extended indefinitely. The public at large suffers because they must pay the brand name price in order to buy cyclandelate in familiar blue and blue/red capsules.

Thus this case raises the issue of the extent to which a a monopoly of an unpatented aspect of a product (i.e., color), with no trademark status, may be created by the courts under the Lanham Act and the doctrine of contributory trademark infringement.

This Court has ruled that the states may not create common law monopolies in unpatented articles. See *Sears Roebuck & Co.* v. *Stiffel*, 376 U.S. 225, 11 L.Ed. 2d 661, 84 S.Ct. 784 (1964); *Compco* v. *Day-Brite Lighting, Inc.*, 376 U.S. 234, 11 L.Ed. 2d 669, 84 S.Ct. 779 (1964), *reh. den.* 377 U.S. 913, 12 L.Ed. 183, 84 S.Ct. 1162 (1965). And in *William R. Warner & Co.* v. *Eli Lilly & Co.*, 265 U.S. 526, 44 S.Ct. 615, 68 L.Ed. 1161 (1924) the Court ruled that although there was evidence of salesmen improperly suggesting the substitution of defendant's product for plaintiff's more costly product, there could be no injunction against the defendant using the same coloring as plaintiff's product.

The Attorney General of the United States in an amicus brief before the Second Circuit on the first appeal (Appendix B), aptly described the importance of this case when he stated:

"Appellant herein seeks to obtain an exclusive right to use a drug capsule color for marketing its previously patented drug cyclandelate. Such a right would seriously undercut the policies articulated by the Supreme Court in *Sears Roebuck & Co.* v. *Stiffel Co.*, 376 U.S. 225 (1964), and *Compco Corp.* v. *Day-Brite Lighting, Inc.*, 376 U.S. 234 (1964), by conferring exclusive rights in an item not qualifying for a monopoly grant under federal patent standards.

"The issue of freedom to compete by copying unpatented articles is especially important in the prescription drug field. Markets for particular prescription drug products are often dominated by major 'brand name' drug companies that have gained their dominant positions through exclusive marketing of the products under patents. *See, e.g., Smith Kline Corp.* v. *Eli Lilly & Co.*, 575 F.2d 1056, 1059-1061, 1065 (3rd Cir. 1978). Once a patent expires, the patent laws envision free and open competition in the product. When the competitive market conditions contemplated by the patent laws for the post-expiration period fail to materialize, society incurs a cost; as a result of successful brand differentiation the established firm often maintains a dominant market share even though its competitors offer the same product at a substantially lower price.

"Colored capsules are an important marketing tool in the post-patent expiration period. As a result of the exclusive sale of a patented drug in a particular colored capsule during the lengthy patent period, customers may identify the colored capsule with the therapeutic action of the product. A prohibition of copying the colors of such capsules would tend to perpetuate the market power conferred by the expired patent and create an artificial and unnecessary barrier to entry and successful competition in the sale of the particular drugs.

> "Patents on numerous important prescription drugs have recently expired or will expire in the next years. J. H. Goldberg, 'MAC's Impact: What's Really Ahead for the Drug Field?' Drug Topics, Dec. 1, 1975. The decision in this case will therefore have a significant impact on the state of competition and prices in the prescription drug field. The United States seeks to assure that no artificial barriers to competition are constructed and that the public obtains the intended benefits of free competition in the post-patent expiration period." (Pages 2 & 3 of amicus brief, footnotes omitted).

The Second Circuit's split decision reversing the trial court has given to Ives a monopoly on color notwithstanding the trial court's factual finding that the capsule color was functional, notwithstanding the legion of cases which hold that a color cannot be trademarked or copyrighted (see *Norwich Pharmacal Co.* v. *Sterling Drug Inc.*, 271 F.2d 569 at 572 [2 Cir. 1959] *cert. denied* 362 U.S. 919 [1960]), notwithstanding the trial court's finding (undisputed by the Mansfield majority) that the capsule colors used by Ives did not identify Ives and had not acquired secondary meaning, notwithstanding that the use of the same color did not cause confusion on the consumer level (patients do not pick their drugs by brand name or otherwise off the shelf) or the pharmacist level, notwithstanding that the actual infringement complained of on the pharmacist level constitutes a criminal offense, and notwithstanding the testimony of Ives' own witness that illegal substitution is not widespread.

This Court should review the granting of such a monopoly which sharply undercuts the policy underlying prior decisions of this Court favoring open competition of unpatented products. *Sears Roebuck & Co.* v. *Stiffel Co.*, *supra*, and *Compco Corp.* v. *Day-Brite Lighting, Inc.*, *supra*.

II. The Issue of Contributory Infringement

While it has long been recognized that a party may be liable to the owner of a trademark if that party contributes in some manner to an infringement of that trademark by a third person, the limits and boundaries of this doctrine have never been ruled upon by the Supreme Court.

Until the opinion of the Second Circuit from which Petitioners seek to appeal, the accepted limits of the doctrine of contributory infringement had been established in *Coca Cola Co.* v. *Snow Crest Beverages, Inc.*, 64 F. Supp. 980, 989 (D.Mass. 1946) *aff'd* 162 F.2d 280 (1st Cir.) *cert. den.* 332 U.S. 809, 68 S.Ct. 110, 92 L.Ed. 386 (1947). In that case, Judge Wyzanski stated:

> "Before he can himself be held as a wrong-doer or contributory infringer one who supplies another with the instruments by which that other commits a tort, must be shown to have knowledge that the other will or can reasonably be expected to commit a tort with the supplied instrument. . . . The test is whether wrongdoing by the purchaser 'might well have been anticipated by the defendant.' *Reid, Murdoch & Co.* v. *H. P. Coffee Co.*, 8th Cir., 48 F.2d 817, 819, last two lines."

Indeed, in the first appeal to the Second Circuit Judge Friendly, following the *Coca Cola Company* case, *supra*, stated:

> "The authorities later reviewed indicate to us that a manufacturer or wholesaler would be liable under Sec. 32 if he suggested, even if only by implication, that a retailer fill his bottle with the generic capsule and apply Ives' mark to the label, or continue to sell capsules containing the generic drug which facilitated this

> to a druggist whom he knew or had reason to know was engaging in the practices just described." 601 F.2d 631, 636 (35a)

Clearly in both the *Coca Cola* case and in Judge Friendly's opinion knowledge or reason to believe that a particular customer of a particular defendant was placing the plaintiff's trademark on the defendant's product would be required to be shown before that defendant could be held liable as a contributory infringer. No such knowledge was shown at trial, nor is it attributed to the defendants in Judge Mansfield's majority opinion. Judge Mansfield does, however, make a finding that the defendants suggested mislabeling and illegal substitution. In doing so, on this record, he significantly extends the former limits of the doctrine of contributory infringement. Judge Mansfield states:

> "By using capsules of identical color, size and shape, together with a catalog describing their appearance and listing comparative prices of Cyclospasmol and generic Cyclandelate, appellees could reasonably anticipate that their generic drug product would by a substantial number of druggists be substituted illegally for Ives' trademark Cyclospasmol or that bottles of their lower priced product might be mislabeled as Cyclospasmol, all to the druggist's economic advantage. This amounted to a suggestion, at least by implication, that the druggist take advantage of the opportunity to engage in such misconduct." 638 F.2d at 543 (82a, 83a)

The court thus ruled that reasonable anticipation that a druggist will mislabel "amounted to a suggestion" by defendants to druggists that they should mislabel. Defendants submit that such a ruling is an illogical and

dangerous extension of the doctrine of contributory infringement.

Moreover, the actions which the Second Circuit found to be suggestive to druggists were, until that decision, always thought to be nothing more than good competition—the making of an unpatented item using functional aspects of the competitor's product, and informing customers that the product was the same as the competitor's but lower priced. See *Sears Roebuck & Co.* v. *Stiffel*, 376 U.S. 225, 11 L.Ed. 2d 661, 84 S.Ct. 784 (1964); *Compco* v. *Day-Brite Lighting, Inc.*, 376 U.S. 234, 11 L.Ed. 2d 669, 84 S.Ct. 779 (1964) *reh. den.* 377 U.S. 913, 12 L.Ed. 183, 84 S.Ct. 1162 (1965).

The result of the Second Circuit decision was, in the words of Judge Nickerson on remand: "to grant a permanent injunction giving plaintiff a monopoly over the colors blue and a combination of blue and red for capsules of the same shape and size as those used by plaintiff to sell Cyclospasmol." (98a)

It will be noted that the Second Circuit found the defendants to have violated solely Section 32 of the Lanham Act (15 U.S.C. Sec. 1114), which section only prohibits the use of another's trademark. Thus the defendants have been found to be contributory infringers only with respect to those druggists who placed generic cyclandelate in a bottle and used a label on that bottle containing Ives' trademark Cyclospasmol. Considering that there was no evidence of any direct suggestion or encouragement by the defendants for a druggist to mislabel the generic compound

with the Ives' trademark, the Second Circuit, by requiring an injunction against the defendants prohibiting them from using Ives' colors, went far beyond anything previously sanctioned by this Court. In *William R. Warner & Co.* v. *Eli Lilly & Co.*, 265 U.S. 526, 44 S.Ct. 615, 68 L.Ed. 1161 (1924) the Court found that the Warner salesmen had suggested substituting Eli Lilly's product with Warner's. Despite such evidence, the Court reversed the injunction granted by the Court of Appeals prohibiting Warner from using chocolate in its coloring, which was the same coloring as Lilly's, and held that Lilly was entitled only to an injunction prohibiting such tactics by salesmen, a requirement that the Warner label be distinctive from Lilly's and that the label state "affirmatively that the preparation is not to be sold or dispensed as Coco-Quinine (Lilly's product) or to be used in filling prescriptions or orders calling for the latter." 265 U.S. 532-33, 44 S.Ct. at 618. Nevertheless, the Second Circuit, on a far less compelling record than the Supreme Court had before it in the *Warner* case, has held that because some druggists improperly labeled the generic compound with Ives' trademark, the defendants must be enjoined from making cyclandelate capsules in the same color as Ives'.

Ives' proof of contributory infringement was undeniably flimsy: a nationwide shopping investigation, conducted by Ives employees with no attempt at fairness, involving only druggists Ives knew had a propensity for illegal substitution, uncovered merely 15 instances of that practice; a survey of 83 pharmacies in New York State disclosed only ten instances of mislabeling and only one instance of overcharging a consumer; and no direct evidence of defendants suggesting, or knowledge of, illegal substitution or mis-

labeling. On this record the Second Circuit fashioned an extraordinary remedy, granting Ives the exclusive right to use certain colors in connection with an unpatented product —although the colors had no trademark status and were found to be functional by the trial court, and despite the availability of other remedies such as criminal sanctions against the offending druggists (New York Education Law, 6816[1][a]) or labeling requirements such as those imposed by this Court in the *Warner* case, *supra*. These limited remedies would not impede competition or prevent patients from obtaining the product in familiar and useful colors at the lower generic price. Instead the Second Circuit did that which courts have done only with the greatest reluctance and in the most compelling cases, it granted Ives a monopoly over colors used in connection with a product which all drug manufacturers and wholesalers are free to sell.

It is submitted that this mischievous result was achieved by the Second Circuit majority's expansion and misuse of the doctrine of contributory trademark infringement. Thus this case raises important questions as to the limits of that doctrine and the relief available in the event that a party is held to have been a contributory infringer.

III. The Court Decision in this Case Undercuts State Public Policy

The State of New York, like many other States, has passed laws encouraging the use of lower cost generic drugs as a method of helping to keep medical costs down. New York Education Law, Section 6810(6) provides that a prescription will be filled generically unless the physician

states to "dispense as written". Section 6816-a New York Education Law requires substitution of a "less expensive drug product" if the doctor allows substitution and the product is on a list established by Section 206 of the Public Health Law. The importance of containing medical costs is thus recognized in New York as being an important public policy consideration.

The District Court found that the color, size and shape of the capsules manufactured by the defendants were functional in that these capsules, by looking the same as Ives', reduced patient's confusion or anxiety in taking their medication, enabled doctors to communicate with the patients more easily concerning their medication, and aided in the identification of the drug in an emergency situation. (63a, 64a) While the Second Circuit found this analysis "unconvincing" it did not reverse the finding of facts by the District Court on this issue of functionality. (84a, 85a)

State public policy is to encourage competition between name-brand drugs and lower cost generic drugs. Obviously having the same color and shape as the name-brand drug will allow generic companies to more effectively compete with the brand-name product. It is ironic that the majority opinion below has used the Lanham Act, enacted to protect the consuming public, to instead grant monopolistic power over a functional aspect of an unpatented product, which will increase the cost of medication to those who can least afford it—the ill and the elderly.

Because of the important State policy of controlling costs through encouraging competition from generic drug manufacturers involved in this case, the Court should grant

the petition for certiorari and review the Second Circuit's opinion which has the effect of limiting and discouraging competition between generic and brand name drug companies by granting brand name companies a monopoly over an aspect of the product which is not entitled to trademark protection, i.e. color.

Conclusion

For the above reasons, it is respectfully submitted that a Writ of Certiorari should be issued to review the judgment of the United States Court of Appeals for the Second Circuit.

Respectfully submitted,

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No. 81-11

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IN THE

Supreme Court of the United States

October Term, 1981

DARBY DRUG CO., INC., INWOOD LABORATORIES INCORPORATED, MD PHARMACEUTICAL COMPANY, INC., PREMO PHARMACEUTICAL LABORATORIES, INC., RUGBY LABORATORIES, INC., and SHERRY PHARMACEUTICAL CO., INC.,

Petitioners,

v.

IVES LABORATORIES, INC.,

Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Second Circuit

BRIEF OF PETITIONERS DARBY DRUG CO., INC., MD PHARMACEUTICAL COMPANY, INC., RUGBY LABORATORIES, INC., AND SHERRY PHARMACEUTICAL CO., INC. ON THE MERITS

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Questions Presented

1. Whether the exclusive use of a color can be granted to a single drug company for use on the surface of standard capsules containing an unpatented prescription drug product.

2. Whether the grant of an injunction prohibiting the copying by generic drug companies of the appearance (color, size and shape) of standard drug capsules containing unpatented chemicals, violates the doctrine favoring free competition among unpatented, uncopyrighted products articulated in *Sears* and *Compco*.

3. Whether a party selling a generic copy of an unpatented, uncopyrighted prescription drug product is guilty of contributory trademark infringement if he could "reasonably anticipate" that some druggists would sell the generic copy using the trademark of the originator on the prescription bottle; or whether proof of complicity with, suggestion to or knowledge of the activities of the wrongdoer is necessary to support liability under the doctrine of contributory trademark infringement.

4. Assuming a manufacturer or wholesaler is guilty of contributory trademark infringement based on the illicit use of a trademark by a retailer, can the court, as a remedy, prohibit the manufacturer or wholesaler from copying the appearance of the product; or, should injunctive relief be limited to labeling requirements, notification to retailers, prohibition of illegal conduct and similar remedies that do not prohibit (a) copying the originator's unpatented, uncopyrighted product and (b) informing customers of the availability of the copy at a lower price.

Statement Pursuant to Supreme Court Rule 28.1

Petitioner, Darby Drug Co., Inc., is the parent company of petitioners, Rugby Laboratories, Inc. and Sherry Pharmaceutical Co., Inc.

Barth-Spencer Corporation is a wholly owned subsidiary of petitioner, Darby Drug Co., Inc.

Carlisle Laboratories, Inc. and Modern Wholesale Drug Co., Inc. are affiliates of petitioner, Darby Drug Co., Inc.

All of the above named corporations were formed and are existing under the laws of the State of New York.

American Vitamin Company, a California corporation, is an affiliate of petitioner, MD Pharmaceutical Company, Inc.

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DARBY DRUG CO., INC., INWOOD LABORATORIES INCORPORATED, MD PHARMACEUTICAL COMPANY, INC., PREMO PHARMACEUTICAL LABORATORIES, INC., RUGBY LABORATORIES, INC., and SHERRY PHARMACEUTICAL CO., INC.,

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Respondent.

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BRIEF OF PETITIONERS DARBY DRUG CO., INC., MD PHARMACEUTICAL COMPANY, INC., RUGBY LABORATORIES, INC., AND SHERRY PHARMACEUTICAL CO., INC. ON THE MERITS

Opinions Below

There are five opinions below, four of which have been officially reported. They are:

(a) The opinion of the United States District Court for the Eastern District of New York, denying the Respond-

ent's motion for a preliminary injunction. 455 F. Supp. 939 (1978) (*Ives I*)

(b) The opinion of the Court of Appeals for the Second Circuit affirming the District Court's denial of Respondent's motion for a preliminary injunction. 601 F.2d 631 (1979) (*Ives II*)

(c) The opinion of the United States District Court for the Eastern District of New York dismissing the Respondent's complaint after trial. 488 F. Supp. 394 (1980) (*Ives III*)

(d) The opinion of the Court of Appeals for the Second Circuit reversing the District Court's dismissal of the Respondent's complaint and remanding the case to the District Court. 638 F.2d 538 (1981) (*Ives IV*)

(e) The memorandum opinion and order of the United States District Court for the Eastern District of New York dated May 12, 1981, issued pursuant to the mandate of the United States Court of Appeals for the Second Circuit (78 Civ. 372) are unreported. (*Ives V*) They are set forth in Appendix F of the Appendices to the Petition for Certiorari filed herein. (Said appendices are referred to herein as "Pet. App.")

Jurisdiction

The judgment of the United States Court of Appeals for the Second Circuit was entered on January 8, 1981, and an order of said court denying Petitioners' petition for rehearing was filed on February 25, 1981.

The jurisdiction of the United States Supreme Court is invoked under the provisions of Title 28, United States Code, §1254(1).

Constitutional Provisions and Statutes Involved

United States Constitution:

Article I, Section 8, Clause 8

First Amendment

The statutes which this case involves are as follows:

The Lanham Trademark Act of 1946 (herein "The Lanham Act"):

§32, 15 U.S.C. §1114
§43(a), 15 U.S.C. §1125(a)

New York Education Law (McKinney's):

§6810
§6815 (2) (h) and (j)
§6816
§6816-a

New York Public Health Law (McKinney's):
§206 (1)(o)

These statutes are set forth in Appendix G, Pet. App.

Statement of the Case

a. Jurisdiction and Procedural Background

The federal courts have jurisdiction of this case pursuant to 28 U.S.C. §§1331 and 1338. (Pet. App. 56a)

The Respondent, Ives Laboratories, Inc. ("Ives"), which makes and sells the prescription drug cyclandelate

under the trademark Cyclospasmol brought this action seeking an injunction and related relief against Petitioners (sometimes referred to herein as defendants) who make and sell cyclandelate under its generic name, based upon claimed violations of §§32 and 43(a) of the Lanham Act (15 U.S.C. §§1114 and 1125(a)) and the New York State law of unfair competition. Ives sought a preliminary injunction which was denied by the district court (*Ives I*, Pet. App. 1a). The denial of a preliminary injunction was affirmed by the Court of Appeals for the Second Circuit. (*Ives II*, Pet. App. 28a). The district court dismissed the complaint after trial (*Ives III*, Pet. App. 56a) and Ives appealed. The appellate court reversed the district court's dismissal of the complaint (*Ives IV*, Pet. App. 71a) and remanded the case to the district court with a mandate to grant relief consistent with the opinion of the appellate court. On remand, the district court granted Ives an injunction, damages, defendants' profits and a recall of defendants' product. (*Ives V*, Pet. App. 96a)

Petitioners seeks review of the judgment of the Court of Appeals for the Second Circuit which reversed the trial court's dismissal of Ives' complaint.

b. Factual Background

The drug cyclandelate, a white powder, is a peripheral vasodilator claimed to produce an increase in blood flow and thereby inhibit the progressive conditions caused by certain vascular diseases which tend to occur in the aged. Cyclandelate is therefore prescribed for a long period of time, generally for the rest of the patient's life. For some years, Ives, its predecessors and its parent company,

American Home Products Corporation, have sold the drug under the mark Cyclospasmol and, until the patent on cyclandelate expired on April 26, 1972, had the exclusive right to make and sell the drug in the United States. Ives has been marketing 200 mg. dosages in a pale blue capsule imprinted "Ives 4124" since 1962, and 400 mg. dosages in red and blue capsules imprinted "Ives 4148" since 1975. (Pet. App. 56a-57a)

Because the drug may be dispensed only on prescription, Ives has directed its promotion primarily to physicians. Some 230 salesmen called "detail" men have made personal visits to doctors and distributed samples and promotional materials. (Pet. App. 57a)

Of the defendants, three are manufacturers: Premo Pharmaceutical Laboratories, Inc. ("Premo"), Inwood Laboratories, Incorporated ("Inwood"), and MD Pharmaceutical Company, Inc. ("MD"). All three purchase cyclandelate and empty capsules, and assemble the product for sale to wholesalers and hospitals. Inwood and MD also sell to retail pharmacies. Premo and Inwood sell 200 mg. and 400 mg. capsules in colors identical to those used by Ives. MD does the same with 200 mg. capsules. Defendants, Darby Drug Co., Inc., Rugby Laboratories, Inc., and Sherry Pharmaceutical Co., Inc. (collectively "the wholesalers") purchase capsules of the kind made by the manufacturers and sell them primarily to physicians and pharmacies. (Pet. App. 57a)

The defendants promote their generic product as comparable, similar or equivalent to Cyclospasmol in price lists

and catalogs distributed to their customers.* Defendants do not utilize salesmen or "detail" men who visit their customers, as does Ives. Some of defendants' catalogs refer to the color of the capsules. Defendants' names appear on their packages of cyclandelate capsules. (Pet. App. 57a, 58a)

The defendants' cyclandelate and Ives' Cyclospasmol are delivered to pharmacists in bottles containing the name of the product and the name of the seller. Ives bottles identify its cyclandelate with the brand name Cyclospasmol. The bottles are opened by the pharmacists and the capsules transferred to smaller containers which bear the pharmacists' own label and are dispensed to consumers. (Pet. App. 58a)

The New York Education Law defines a pharmacist's obligations in dispensing prescription drugs. The relevant provisions require a doctor's prescription form to state that it will be filled with a generic product unless the doctor prescribes by brand name and signs the form over the line stating "dispense as written". (Education Law §6810(6)) If the doctor signs over the other signature line on the prescription form, which reads "substitution permissible," the druggist must dispense a less expensive drug having the same active ingredients, provided that drug appears on a list maintained by the State for such purpose. (Education Law §6816-a(1)) If the drug is not on the list, the druggist may, but is not required to, substitute the less expensive generic drug. (Pet. App. 58a)

* There was no proof at trial that defendants' cyclandelate had any different therapeutic effect than Ives' Cyclospasmol brand cyclandelate, and that was not an issue in the case.

The label placed on the bottle by the druggist must contain the brand name of the drug, if it has one, or the generic name and the name of the manufacturer. (Education Law §6816-a) Therefore, a druggist dispensing Ives' Cyclospasmol brand cyclandelate must put "Cyclospasmol" on the label. However, if cyclandelate as sold by the defendants is dispensed, the label must state the word "cyclandelate" and the name of the manufacturer (e.g., "cyclandelate Premo"). (Pet. App. 58a)

Violation of the Education Law subjects a pharmacist to criminal law penalties and loss of his license. (Education Law §6816(1)(a)) (Pet. App. 116a, 117a)

c. Capsule Colors Are Not an Ives Trademark.

Ives claimed that the defendants use of look-alike capsules constituted a false designation of origin in violation of Section 43(a) of the Lanham Act, 15 U.S.C. §1125(a). The trial court rejected this contention on two grounds. Firstly, the trial court found the colors to be functional and therefore not entitled to trademark protection. (Pet. App. 63a) Secondly, the court noted that even if the colors were not functional, Ives failed to show that they acquired secondary meaning, i.e., Ives did not demonstrate that patients identified the capsule colors with the source of the medication. (Pet. App. 64a) There being no showing that capsule colors designate origin, the use of look-alike capsules by the defendants did not constitute a false designation of origin under §43(a). The finding by the trial court was not discussed or reversed by the court of appeals. (*Ives IV*, Pet. App. 71a)

d. The Charge of Contributory Trademark Infringement

Ives claims that a significant number of pharmacists palm-off defendants' cyclandelate capsules in filling prescriptions for Cyclospasmol, and use Ives' trademark "Cyclospasmol" on the labels of bottles containing generic cyclandelate. Ives also claims that a significant number of pharmacists mislabel generic cyclandelate as Cyclospasmol when filling prescriptions calling for generic cyclandelate. Such a misuse of Ives' trademark, Cyclospasmol, by pharmacists engaging in the practice of illegal substitution and mislabeling would constitute a violation of §32 of the Lanham Act (15 U.S.C. §1114).

Ives makes no claim against the offending pharmacists, but charges that the defendants contribute to those forms of trademark infringement by selling cyclandelate in capsules that are blue and blue/red, similar in appearance to Cyclospasmol capsules, and by promoting the sale of generic cyclandelate in catalogs and price lists stating defendants' product to be equivalent to Cyclospasmol. Ives claims that these activities alone constitute contributory trademark infringement making the defendants violators of §32 of the Lanham Act. *Ives IV*, 638 F.2d 538, 540. (Pet. App. 76a) There was no evidence that any defendant suggested illegal substitution or mislabeling to any pharmacist. In fact, defendants have no salesmen or "detail" men who visit pharmacies and were not shown to have knowledge of, or reason to know of, any pharmacist engaging in illegal substitution or mislabeling. *Ives III*, 488 F.Supp 394, 397 (E.D.N.Y. 1980). (Pet. App. 59a)

The only other evidence presented by Ives to support its claim of contributory trademark infringement was (a) the results of a nationwide shopping investigation which disclosed only fifteen instances of illegal substitution, and (b) the results of a New York State survey which showed that ten pharmacists out of 83 mislabeled the product by using the name Cyclospasmol on bottles containing generic cyclandelate. *Id.* (Pet. App. 59a-60a)

The fifteen instances of illegal substitution were obtained in an uncontrolled nationwide investigation conducted by Ives' employees and "detail" men. The "detail" men were instructed to submit prescriptions for Cyclospasmol to pharmacies which Ives knew had a propensity to palm-off generic products for expensive band name products. (Pet. App. 60a)

The ten instances of mislabeling were obtained in a survey involving prescriptions for Cyclospasmol signed on the line stating "substitution permitted" which were submitted to 83 pharmacists. Ten pharmacies mislabeled the generic product by using the word Cyclospasmol on the label, however, five of these also indicated on the label that a generic form of Cyclospasmol was being dispensed, by using the phrase "generic Cyclospasmol" or the like.* Nine of the ten pharmacies which mislabeled, informed the pur-

* While a pharmacist's placing of Ives' trademark "Cyclospasmol" by itself on the label of a bottle containing generic cyclandelate would constitute a trademark violation, the use of the words or phrase "generic Cyclospasmol" on the label is a true statement and therefore not a trademark violation. *Smith* v. *Chanel, Inc.*, 402 F.2d 562 (9th Cir. 1968). However, such a phrase when used on the label of a prescription bottle would violate the technical requirements of New York's drug substitution law (which requires the generic capsules to be labeled with the generic name, cyclandelate, and the name of the generic drug manufacturer.) N.Y. Education Law §6816-a(1)(c).

chaser that generic cyclandelate was being dispensed, and only one pharmacy appeared to have charged the higher Cyclospasmol price for the generic product. (Pet. App. 60a)

Although it was conceded by most of the defendants that using look-alike capsules could facilitate illegal substitution of a generic product by pharmacists having a desire to engage in such activity, there was no other evidence to connect the use of look-alike capsules to the instances of substitution or mislabeling described above.

With respect to the question of whether illegal substitution of generic products for brand name products was a widespread practice, the President of the New York State Pharmaceutical Society, called as a witness by Ives,** testified that he did not believe the practice to be widespread. *Ives IV*, 638 F.2d at 545. (Pet. App. 85a)†

The testimony of three doctors and two pharmacists called as witnesses for the defense showed that the color of drug capsules used in connection with long-term, maintenance medication relieves patient anxiety by assuring the patient that he is receiving the same medication he has previously received, avoids confusion among patients who take various types of medication in a single day, aids communication between doctors and patients in discussing the

** The error in the printed opinion, referring to Mr. Lawler as defendants' witness, has been corrected.

† Even in the few instances where illegal substitution occurs, the patient pays no more than he would if the brand name drug were dispensed. The difference is, the druggist makes the excess profit rather than Ives. As conceded by Ives, the patient is getting equivalent medication.

effects of medication and instructions for its use, and aids in identifying medication consumed by patients in emergency situations. Several witnesses, including one of the pharmacists referred to above and a businessman employed by a generic drug company, testified to the difficulty in marketing generic products which differed in appearance from the brand name product containing the same active ingredient. Such generic products which differ in appearance from the related brand name product are not readily accepted in the marketplace.* The trial court made a factual finding that the colors of the drug product were functional, based upon the testimony described above. *Ives III*, 488 F.Supp. at 398-399. (Pet. App. 63a)

The evidence presented by defendants that capsule colors are functional is related to Ives' charge of contributory trademark infringement under §32 of the Lanham Act (15 U.S.C. §1114). Such evidence belies Ives' claim that the use of look-alike capsules was undertaken by the defendants for the purpose of suggesting illegal substitution and mislabeling to pharmacists.

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* Ives claims that some generically identical drugs are sold in different colors, thus disputing defendants' contention that the colors are "an important ingredient of the commercial success of the product . . ." (See *Pagliero* v. *Wallace China Co.*, 198 F.2d 339, 343 (9th Cir. 1952) cited by Judge Friendly in *Ives II*, 601 F.2d 631, 643, regarding a definition of functionality.) Ives' claim does not withstand analysis. Some drug companies compete primarily by product differentiation. For that reason they adopt different capsule colors and trade names even when they sell identical products. Defendants compete differently by seeking to equate their drug products with the innovator and to compete on the basis of price. This is a form of competition as legitimate as that of drug companies that differentiate their products, and results in lower prices while differentiation tends to maintain higher prices. The use of identical color is part and parcel of the legitimate effort of generic drug companies to equate their products with the market leaders in every way, except for price.

Summary of Argument

1. The Second Circuit in *Ives IV* granted Ives a perpetual monopoly of the color blue and the blue/red combination in connection with the sale of cyclandelate in standard size capsules. The grant of a color monopoly for use in connection with an unpatented, uncopyrighted product violates long standing precedent against the creation of perpetual, unregulated, judge-made monopolies regarding color. This case is a prime example of the importance of the principle that color should not be monopolized by a single company, since the granting of such a monopoly in the case at bar creates a serious impediment to the ability of the defendants to compete with Ives regarding the sale of cyclandelate.

2. The doctrine enunciated by this Court in the *Sears* and *Compco* cases is applicable to the case at bar. That doctrine, which permits the copying of unprotected features of an article in commerce, was violated by the injunction ordered by the Second Circuit in *Ives IV*, since that injunction prohibited the copying of the color, size and shape of Ives' cyclandelate capsules. The prohibition against copying cannot be justified under the exception contained in *Sears* and *Compco* regarding the imposition of labeling and trade-dress requirements, since the color of prescription drug capsules is not labeling or trade-dress.

3. The Second Circuit in *Ives IV* impermissibly expanded the doctrine of contributory trademark infringement in order to find the defendants liable under that doctrine. Prior to *Ives IV*, a finding of contributory trademark infringement required that defendants suggest

palming-off or continue to sell a copy of the trademark product to a retailer with knowledge that the retailer was palming-off the copy for the original.

The Second Circuit in *Ives IV* extended that doctrine to find defendants liable if they could "reasonably anticipate" that a substantial number of retailers would palm off the copy for the original. Although there was no evidence that the defendants in this case knew of any druggist who was palming-off their generic product for Ives' brand name product, nor any finding of a suggestion on the part of the defendants that druggists engage in such palming-off, the Second Circuit found the defendants guilty of contributory trademark infringement on the basis of "reasonable anticipation" that such conduct would occur. This unprecedented expansion of the doctrine of contributory trademark infringement was improper and, if permitted to continue, will have a chilling effect on competition, by holding copiers liable for the wrongdoing of others despite the fact that the copiers do nothing but sell their copies at a lower price than the originals, and inform their customers of the availability of such products.

4. Even if, *arguendo,* the defendants were properly found to be contributory trademark infringers, the remedy imposed by the Second Circuit in *Ives IV* was unwarranted and improper. The remedy in such a case should be limited to labeling requirements and warnings to pharmacists against the practice of palming-off, rather than the prohibition of copying the color of the product. Such limited remedies would not impede competition or prevent patients from obtaining the product in the familiar and useful colors at the lower generic price.

ARGUMENT

POINT I

The Grant of a Perpetual Monopoly of Color to Ives for a Drug Product Should Be Reversed.

The Second Circuit has granted Ives a perpetual monopoly of the color blue and the blue/red combination in connection with the product cyclandelate. This result is in direct conflict with the law, recognized for decades by the federal courts, that color alone cannot become the exclusive property of anyone.

At the beginning of this century, the Supreme Court stated:

> "Certainly a trade-mark could not be claimed of a rope, the entire surface of which was colored. . ." *A. Leschen & Sons Rope Co.* v. *Broderick,* 201 U.S. 166, 170-171 (1906)

Courts have consistently held that color, by itself, cannot be registered under the provisions of the Lanham Act. "[T]he mere coloration of the various panels of the ordinary basketball is not sufficiently distinctive to be the subject of a statutory trademark." *American Basketball Assoc.* v. *A.M.F. Voit,* 358 F. Supp. 981, 985 (S.D.N.Y.), *aff'd without op.,* 487 F.2d 1393 (2d Cir. 1973), *cert. denied,* 416 U.S. 986 (1974). "Colors or colors used as mere surface decoration cannot be monopolized by a claim to trademark rights therein." *Plastilite Corp.* v. *Kassnar Imports,* 508 F.2d 824, 826 (C.C.P.A. 1975). See also *Diamond Match Co.* v. *Saginaw Match Co.,* 142 Fed. 727 (6th Cir. 1906);

Campbell Soup Co. v. *Armour & Co.*, 175 F.2d 795 (3rd Cir. 1949), *cert. denied*, 338 U.S. 847 (1949); IV *R. Callman, Law of Unfair Competition, Trademarks and Monopolies*, § 98.4 (d) at 684 (3rd ed. 1970); Vol. I *J.T. McCarthy, Trademarks and Unfair Competition*, § 7:16 at 178 (1973).

The Second Circuit has itself, in an unfair competition case, rejected a claim that the color of a drug product could become the exclusive property of the innovator.

> "That a color may become someone's exclusive property as a perpetual monopoly in connection with a specific product has been rejected by the courts throughout the years." *Norwich Pharmacal Co.* v. *Sterling Drug Inc.*, 271 F.2d 569 at 572 (2nd Cir. 1959), *cert. denied*, 362 U.S. 919 (1960).

This basic precept against granting perpetual monopolies of color has been recently violated in two separate ways by certain courts. One way is to find that colors are valid trademarks because they have "secondary meaning." *A.H. Robins Co.* v. *Medicine Chest Corp.*, 206 U.S.P.Q. 1015 (E.D. Mo. 1980); *SK & F Co.* v. *Premo Pharmaceutical Laboratories, Inc.*, 625 F.2d 1055 (3rd Cir. 1980); *Boehringer-Ingelheim G.m.b.H.* v. *Premo Pharmaceutical Laboratories, Inc.* (D.N.J. Docket No. 79-0358, Sept. 24, 1980); *Merrel-National Laboratories, Inc.* v. *Zenith Laboratories Inc.*, 194 U.S.P.Q. 157 (D.N.J. 1977), *aff'd on procedural grounds*, 579 F.2d 786 (3rd Cir. 1978). The other is to hold that only by granting an injunction against the use of certain colors by anyone other than the plaintiff can the avoidance of passing-off and mislabeling be achieved. *Ives IV*, 638 F.2d 539. (Pet. App. 71a)

Whether these color monopolies are granted affirmatively by establishing a trademark right in color, or negatively by prohibiting others, as a remedy, from using the colors (without deciding that color is a trademark), the results violate established law and conflict with the federal policy of free competition. See *American Safety Table Co.* v. *Schreiber*, 269 F.2d 255, 271-272 (2nd Cir. 1959).

Defendants proved at trial that there are valid reasons for copying Ives' colors in this case, related to the fact that the colors have become associated with the drug chemistry and its therapeautic effect during the long period of Ives' patent monopoly. As stated in *Kellogg Co.* v. *National Biscuit Co.*, 305 U.S. 111 (1938) where an article may be manufactured by all, a particular manufacturer cannot:

> ". . . assert exclusive rights in a form in which the public has become accustomed to see the article and which in the minds of the public is primarily associated with the article rather than a particular producer. . ." *Id.* at 120.

However, even if appellants did copy Ives' colors without regard to their function, solely to sponge on Ives' good will and to take advantage of Ives' invention and development of the product, copying the colors should not have been prohibited. Obviously, "courts have little sympathy for a willful imitator" (*American Safety Table Co.* v. *Schreiber, supra* at 272); and this has led the Third Circuit to state in a similar context that claims of a copier do not have "the look, sound or feel of equity." *SK & F Co.* v. *Premo Pharmaceutical Laboratories, Inc., supra*, 625 F.2d at 1067. But courts must consider the law in its complexity, and its effect on the public. They should not be swayed by

visceral or subjective reactions to render decisions violative of long standing precedent based on reason and principle. See discussion in *Smith* v. *Chanel, Inc., supra,* 402 F.2d at 568. As stated by the Second Circuit decades ago:

> "[T]he underlying principles of our competitive economy and the desirability of passing on to the American public the advances of technical progress not only are entitled to consideration, in fact they dominate the picture although the interests of the public are not represented by either of the parties to the action. * * * Hence at first glance it might seem intolerable that one manufacturer should be allowed to sponge on another by pirating the product of years of invention and development without license or recompense and reap the fruits sown by another. Morally and ethically such practices strike a discordant note. It cuts across the grain of justice to permit an intruder to profit not only by the efforts of another but at his expense as well. * * *
>
> But this initial response to the problem has been curbed in deference to the greater public good . . . . For imitation is the life blood of competition. It is the unimpeded availability of substantially equivalent units that permits the normal operation of supply and demand to yield the fair price society must pay for a given commodity. *American Safety Table Co.* v. *Schreiber, supra,* 269 F.2d at 271, 272 (citations omitted).

This case is a prime example of the importance of the principle that color cannot be monpolized by an individual or company.

Let us look at what Ives is attempting to do in this case, which explains why the case is so important to the parties and why it is being litigated to the highest court in the

country. For many years, Ives had a patent monopoly over the chemical substance, cyclandelate, and exploited that monopoly by spending millions of dollars (all of which was ultimately passed on to the consumers of Ives' product) to identify its trademark Cyclospasmol and the colors of its capsules with the product itself. Through the use of hundreds of "detail men", and extensive trade advertisements to physicians and pharmacists, Ives was successful in causing doctors, druggists and patients to think of the color blue and the name Cyclospasmol as identifying the drug cyclandelate. This should be no surprise, in view of Ives' effort and expense in making its trademark and the color synonymous with the product itself.*

Now that the patent has expired, Ives seeks to use the identification between the drug and the color of the capsule, which it fostered as described above, to inhibit competition and to extend its monopoly to the fullest extent possible. Clearly, it is difficult, if not impossible, to compete with Ives if that company has the sole use of the colors which people identify with the product.

It is Ives that is attempting to compete unfairly by creating a court-made monopoly; however, using the well known tactic that the best defense is a good offense, Ives charges the defendants with competing unfairly to capture sales made by a few unethical pharmacists who illegally

* It should be noted, however, that this phenomenon did not extend to identifying the source of the product. Prescribers, dispensers and users of 200 mg. doses of cyclandelate merely thought of the drug as Cyclospasmol coming in blue capsules. There is no evidence that they thought blue cyclandelate capsules came from a single source, despite Ives' efforts to produce such proof. The reason for this absence of proof is simple; no one actually thinks of the color as an identification of the manufacturer (or source) of the drug.

pass-off or substitute defendants' product for Ives' product. This charge is reduced to absurdity by Ives' own shopping survey. The fifteen instances of illegal substitution proved by Ives in this case are obviously inconsequential, and Ives' own witness, the President of the New York State Pharmaceutical Society, testified that illegal substitution is not widespread.

The mislabeling of generic cyclandelate as Cyclospasmol in instances where substitution is legal and authorized does nothing to increase defendants' sales since those prescriptions would be filled generically regardless of labeling. Therefore, the possibility of mislabeling cannot be a motivating factor in defendants' decision to copy the colors of Cyclospasmol.

While the few additional sales made by unethical pharmacists are insignificant to Ives and to the defendants, the principle of monopolizing the color of a capsule is extremely important because such a monopoly prevents defendants from marketing a useful product in its standard appearance, i.e., the "form in which the public has become accustomed to see the article . . . ." *Kellogg Co.* v. *National Biscuit Company, supra,* at p. 120.

The case at bar represents a classic illustration of the importance of the principle that color should not be anyone's exclusive property with respect to the marketing of a product. The Second Circuit's decision in this case granting Ives a perpetual, unregulated monopoly of the color blue, and the color combination blue and red, in connection with the sale of the drug cyclandelate should be reversed.

POINT II

The Doctrine Stated in *Sears* and *Compco* Has Been Violated by the Court Below.

Defendants submit that the principle barring monopolies of color is applicable to this case and affords sufficient grounds for reversal of the decision of the Second Circuit which granted Ives such a monopoly. However, there are other grounds for reversing the court below.

One ground is that the decision violates the principles enunciated in *Sears Roebuck & Co.* v. *Stiffel Company*, 376 U.S. 225, 84 S.Ct. 784, 11 L.Ed. 2d 661 (1964) and *Compco Corp.* v. *Day-Brite Lighting, Inc.*, 376 U.S. 234, 84 S.Ct. 779, 11 L.Ed. 2d 669 (1964), (*Sears* and *Compco*). The other is the Second Circuit's impermissible extension of the doctrine of contributory trademark infringement. Based upon such extension, the court found Ives entitled to an injunction prohibiting the defendants' copying of Ives' product, copying which previously had been considered "the life blood of competition". *American Safety Table Co.* v. *Schreiber, supra*, 269 F.2d at 272 (See Point III, *infra*).

The landmark companion cases of *Sears* and *Compco* held that state law cannot prohibit the copying of unpatented designs, even if such copying caused confusion among purchasers as to the maker of the product. Problems of confusion or passing-off can be dealt with by labeling requirements, but not by granting perpetual monopolies over unpatented designs. *Sears*, 376 U.S. at 232; *Compco*, 376 U.S. at 238.

These decisions are directly applicable to the case at bar and should prohibit the creation of a perpetual color monopoly for Ives in connection with the color, size or shape of a drug product. Although *Sears* and *Compco* dealt with federal limitations on state unfair competition laws, the basis for the decisions was the Constitutional limitation on the granting of patent monopolies. The reasoning of *Sears* and *Compco* is as applicable to unfair competition claims as to claims brought under state law. Both the federal and state unfair competition laws are limited by the Constitution. Moreover, even if the *Sears* and *Compco* holdings were not constitutionally based, there is nothing in the Lanham Act or its legislative history that indicates Congress enacted a federal law of unfair competition as to palming-off broader than that permissible to the States. *Ives I*, 455 F. Supp. at 946. Thus, the reasoning of *Sears* and *Compco* permits the copying of unprotected features of an article in commerce, and limits the means of preventing palming-off to labeling and precautionary steps other than a prohibition of copying. If this doctrine is salutary, it should apply whether state or federal laws or unfair competition are in issue.

It should be noted that *Sears* and *Compco* did not forge a revolutionary legal doctrine but merely reinforced the longstanding abhorence of federal courts to grant judge-made monopolies which are both perpetual and unregulated. *Cheney Bros.* v. *Doris Silk Corp.*, 35 F.2d 279, 281 (2d Cir. 1929) (per L. Hand, J.), *cert. denied*, 281 U.S. 728 (1930). In *Kellogg Co.* v. *National Biscuit Co., supra*, this Court refused to grant a monopoly of the pillow shape of the shredded wheat biscuit. In *Norwich Pharmacal Company* v.

Sterling Drug Co., supra, the Second Circuit refused to grant a monopoly of the pink color of Pepto Bismol (and reference has already been made to the cases denying claims for color monopolies). In *Wm. R. Warner & Co.* v. *Eli Lilly & Co.,* 265 U.S. 526, 44 S.Ct. 615, 68 L.Ed. 1161 (1924), this Court denied a claim to the exclusive use of chocolate in Coco-Quinine. In *Smith, Kline & French Laboratories* v. *Clark & Clark,* 157 F.2d 725 (3rd Cir.), *cert. denied,* 329 U.S. 796 (1946), a post patent injunction prohibited only palming-off, but not the copying of the shape, color and scoring which the Court found to be functional for amphetamine sulphate prescription drug tablets. In *Upjohn Company* v. *Schwartz,* 246 F.2d 254 (2d Cir. 1957), copying the appearance of a prescription drug tablet was not enjoined despite evidence of defendant's salesmen suggesting illegal substitution; only the unlawful activity was enjoined. Even in *Truck Equipment Service Co.* v. *Fruehauf Corp.,* 536 F.2d 1210, *cert. denied,* 429 U.S. 861 (1967), which distinguished *Sears* and *Compco* in dealing with a Lanham Act §43 (a) claim and granted an injunction against copying the exterior design of a hopper grain trailer, the injunction was later modified to permit copying, to prohibit only deceptive advertising and to require labeling. See *Ives II,* 601 F.2d 642, footnote 14.

Until the recent spate of cases referred to at p. 15 above, protective of the brand name drug industry's competitive position *vis à vis* generic companies, it would seem inconceivable that courts could grant monopolies over the unpatented, uncopyrighted and unregistered color and appearance of an article in commerce. *Sears* and *Compco* are

not revolutionary but are the watershed of those decisions favoring free competition, recognizing that copying is the lifeblood of free competition, *American Safety Table Co.* v. *Schreiber, supra,* and that the avoidance of confusion as to source must be dealt with, not by prohibiting copying, but by requiring adequate labeling, trade dress distinctiveness and similar protective methods that do not unduly limit the right to compete.

The question remains whether an injunction against copying the colors of Ives' product is a permissible labeling or trade dress requirement under the *Sears* and *Compco* doctrine. The District Court, in denying Ives' motion for a preliminary injunction, found that the color of capsules could not be considered trade dress or packaging because the colors are ingested as part of the product. *Ives I.* (Pet. App. 19a) The issue thus becomes one of product simulation permitted by *Sears* and *Compco,* and not a packaging claim for which injunctive relief prohibiting copying may be appropriate.

In addition to the fact that the colors are ingested with the product, the colors do not function as trade dress or labeling. Because the colors are not seen until after the purchase, and the product is not chosen by the consumer, color cannot play any part in affecting consumer choice. In a typical palming-off case, the person making the choice of which product to buy is deceived and his choice diverted from the intended object of his purchase. Such deception is precisely what the Lanham Act sections relied on by Ives are intended to prevent. However, in the prescription drug context the consumer is a patient, and he does not choose

whether to buy a brand name or a generic drug product. The patient's doctor makes that choice, and the doctor is not deceived by color. Nor is the doctor directed to or diverted from choosing a drug manufactured by a particular source by capsule color, as a housewife might be deceived in choosing detergent or breakfast cereal by a confusingly similar package.

While the color of a capsule does serve a function, i.e., to identify the type of drug or the therapeutic effect of the drug,* the color does not function as trade dress or packaging. Relating this fact to *Sears* and *Compco*: if capsule color is not packaging or trade dress, it is not subject to the power to require such precautions as labeling "to prevent customers from being misled as to the source. . ." 376 U.S. at 232, 233; 84 S.Ct. at 789. *Sears* and *Compco* permit copying of articles and their aspects which are unprotected by patent or copyright—and one cannot get in the backdoor to prohibit such copying by the expedient of calling the unpatented, uncopyrighted and unregistered aspect of the product (i.e., capsule color, size and shape) "trade dress", "packaging" or labeling".

The prohibition against copying capsule appearance contained in the Second Circuit's opinion violates the precepts favoring free competition enunciated in *Sears* and *Compco*, and should be reversed.

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* See discussion of function at pp. 11 and 16, *supra*.

POINT III

The Circuit Court Impermissibly Expanded the Doctrine of Contributory Trademark Infringement to Enjoin the Lawful Activity of Petitioners.

As noted above (p. 20), this Court need not reach the issue of contributory trademark infringement to reverse the Circuit Court, because that court's decision violates basic precepts against granting judge-made monopolies over (1) color and (2) any unpatented, uncopyrighted and unregistered feature of an article in commerce. However, defendants submit that the Circuit Court did impermissibly expand the doctrine of contributory trademark infringement to enjoin the defendants' lawful competitive activity and we are constrained to include this point because the dangerous expansion and misapplication of that doctrine is the path which led the Circuit Court to mandate the offensive injunction.

a. Judicial Standard of Contributory Trademark Infringement

In his opinion affirming the initial decision of the District Court (which denied Ives' motion for a preliminary injunction, *Ives I*, 455 F. Supp. 939), Judge Friendly, writing for the Second Circuit, attempted to establish guidelines for determining liability under the doctrine of contributory trademark infringement. *Ives II*, 601 F.2d at 636.

The trial judge had defined contributory trademark infringement as "the knowing and deliberate instigation of

such a practice" (455 F. Supp. at 945). Judge Friendly found that definition too narrow, and defined the doctrine for the edification of the trial court as follows:

> ". . . a manufacturer or wholesaler would be liable under §32 if he suggested, even if only by implication, that a retailer fill a bottle with the generic capsules and apply Ives' mark to the label, or continued to sell capsules containing the generic drug which facilitated this to a druggist whom he knew or had reason to know was engaging in the practices just described. The proper criteria are stated in *Coca-Cola Co.* v. *Snow Crest Beverages, Inc.*, 64 F. Supp. 980, 989 (D. Mass. 1946) (Wyzanski, J.), affd., 162 F. 2d 280 (1 Cir.), cert. denied, 332 U.S. 809 (1947)." 601 F.2d at 636.

In *Coca-Cola, supra,* the plaintiff claimed that the defendant committed contributory trademark infringement because bartenders were substituting defendant's Polar Cola for plaintiff's Coca-Cola when a bar customer would ask for rum (or whiskey) and Coca-Cola. Judge Wyzanski found that defendant knew some customers ordered rum (or whiskey) and Coca-Cola, "and that any man of common sense knows that in any line of business, including, but not emphasizing the business of running bars and taverns, there are some unscrupulous persons who, when it is to their financial advantage to do so, will palm-off on customers a different product from that ordered by the customers." 64 F.Supp. at 988-989. However, the court found that there was no contributory trademark infringement. A reading of Judge Wyzanski's opinion leads to the conclusion that more is needed to make out a case of contributory trademark infringement than proof of sales to a basically law-abiding group with a few bad actors among them—

particularly when the defendants are not notified, and have no way of knowing, which of their customers are doing the palming-off.

After trial in the case at bar, Judge Nickerson considered whether the defendants' actions of selling look-alike capsules to pharmacists, informing customers that their product was an equivalent copy of Ives' product and charging a lower price for the copy, constituted contributory trademark infringement.

Using Judge Friendly's definition, the trial court found that:

> "... defendants did not suggest, even by implication, that pharmacists fill bottles with the generic drug cyclandelate and apply the trademark Cyclospasmol. Nor did Ives show that defendants continued to sell the generic drug to pharmacists who defendants knew or had reason to know were engaging in such practice. 601 F.2d at 636." *Ives III*, 488 F. Supp. at 397. (Pet. App. 59a)

On appeal after trial, Judge Mansfield, writing for a majority of the Second Circuit, reversed this finding of the trial court and found defendants liable for contributory trademark infringement. In doing so, the court revised and expanded the doctrine of contributory trademark infringement:

> "By using capsules of identical color, size and shape, together with a catalog describing their appearance and listing comparative prices of Cyclospasmol and generic Cyclandelate, appellees could *reasonably anticipate* that their generic drug product would by a substantial number of druggists be substituted illegally

> for Ives' trademarked Cyclospasmol or that bottles of their lower priced product might be mislabeled Cyclospasmol, all to the druggist's economic advantage. This amounted to a suggestion, at least by implication, that the druggist take advantage of the opportunity to engage in such misconduct." 638 F.2d at 543 (emphasis added) (Pet. App. 82a, 83a)

The court thus ruled that reasonable anticipation that a substantial number* of druggists will illegally substitute and mislabel, "amounted to a suggestion" by defendants to druggists that they should illegally substitute and mislabel. Defendants submit that such a ruling is an illogical extension of the doctrine of contributory infringement.

The actions which the Second Circuit found to be suggestive to druggists were, until that decision, always thought to be nothing more than good competition—the making of an unpatented item using functional aspects of the competitor's product, and informing customers that the product was the same as the competitor's but lower priced. See *Sears Roebuck & Co.* v. *Stiffel,* 376 U.S. 225, 11 L. Ed. 2d 661, 84 S. Ct. 784 (1964); *Compco* v. *Day-Brite Lighting, Inc.,* 376 U.S. 913, 12 L. Ed. 183, 84 S. Ct. 1162 (1965).**

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* There was no basis in the record for the court's implied finding that a substantial number of druggists illegally substitute or mislabel. See pp. 9 and 10, *supra.*

** In *Smith* v. *Chanel, Inc., supra,* Chanel claimed that the defendants were placing their copy of Chanel No. 5 in the hands of unscrupulous dealers who might deceive consumers to buy the defendants' copy as plaintiff's original. The Court acknowledged that possibility, but held that the defendants "have done all that could reasonably be done to avoid confusion" by properly labeling their copy of Chanel No. 5, and by selling it as a copy rather than as the original. "The speculative possibility of deliberate fraud by third persons is not a sufficient basis for relief." 402 F.2d at 570.

The Second Circuit held Ives entitled to relief by expanding the doctrine of contributory trademark infringement to include instances where a defendant could "reasonably anticipate" illegal activity by a third party. This unwarranted expansion of the doctrine opens the door to a multitude of lawsuits against copiers who do no more than the defendants did in this case: legally copy an unpatented, uncopyrighted article and inform retailers of the availability of the copy at a lower price. The new doctrine of contributory trademark infringement is based on "reasonable anticipation" of possible wrongdoing by a third party and not on any suggestion to, complicity with, or knowledge of the wrongdoer. Obviously such a rule will have a chilling effect on competition by holding copiers liable for the wrongdoing of others despite the fact that the copiers did nothing except sell their copies at a lower price than the originals.

b. The Remedy of Granting a Color Monopoly

Not only did the Second Circuit dangerously expand the doctrine of contributory trademark infringement to find liability where none should exist, it also fashioned a Draconian remedy which hobbles the defendants in their attempt to compete with Ives.

The result of the Second Circuit's decision was, in the words of Judge Nickerson on remand, "to grant a permanent injunction giving plaintiff a monoply over the colors blue and a combination of blue and red for capsules of the same shape and size as those used by plaintiff to sell Cyclospasmol." *Ives* V, (Pet. App. 98a)

The Second Circuit found that the defendants violated Section 32 of the Lanham Act only (15 U.S.C. Sec. 1114). This section prohibits only the use of another's trademark. Thus the defendants have been found to be contributory infringers only with respect to those druggists who placed generic cyclandelate in a bottle and used a label on that bottle containing Ives' trademark, Cyclospasmol. Considering that there was no evidence of any direct suggestion or encouragment by the defendants for a druggist to mislabel the generic compound with the Ives' trademark, the Second Circuit, by requiring an injunction prohibiting the defendants from using Ives' colors, went far beyond anything previously sanctioned by this Court. In *William R. Warner & Co.* v. *Eli Lilly & Co., supra,* the Court found that the Warner salesmen had suggested substituting Eli Lilly's product for Warner's. Despite such evidence, the Court reversed the injunction granted by the Court of Appeals prohibiting Warner from using chocolate in its product, and held that Lilly was entitled only to an injunction prohibiting illegal suggestions by salesmen, a requirement that the Warner label be distinctive from Lilly's and that the label state "affirmatively that the preparation is not to be sold or dispensed as Coco-Quinine (Lilly's product), or to be used in filling prescriptions or orders calling for the latter." 265 U.S. 532-33, 44 S. Ct. at 618. Nevertheless, the Second Circuit, on a far less compelling record than the Supreme Court had before it in the *Warner* case, has held that because some druggists illegally substitute and mislabel the generic compound with Ives' trademark, the defendants must be enjoined from making cyclandelate capsules in the same color as Ives'.

Ives' proof of contributory infrigement was undeniably flimsy: a nationwide shopping investigation, conducted by Ives' employees with no attempt at fairness, involving only druggists Ives knew had a propensity for illegal substitution, uncovered merely 15 instances of that practice; a survey of 83 pharmacies in New York State disclosed only ten instances of mislabeling and only one instance of overcharging a consumer; and no direct evidence of defendants suggesting, or knowledge of, illegal substitution or mislabeling. On this record, the Second Circuit fashioned an extraordinary remedy, granting Ives the exclusive right to use certain colors in connection with an unpatented product—although the colors had no trademark status and were found to be functional by the trial court, and despite the availability of other remedies such as criminal sanctions against the offending druggists (New York Education Law, §6816 [1] [a]) or labeling requirements such as those imposed by this Court in the *Warner* case, *supra*. These limited remedies would not impede competition or prevent patients from obtaining the product in familiar and useful colors at the lower generic price. Instead, the Second Circuit granted relief which courts have consistently refused; it granted Ives a monopoly over colors used in connection with a product which all drug manufacturers and wholesalers are free to sell.

It is submitted that the Second Circuit arrived at this mischievous result by expanding and misusing the doctrine of contributory trademark infringement. This new and dangerously broad interpretation of contributory trademark infrigement should not be allowed to stand as precedent for future decisions of the federal courts.

Conclusion

The judgment of the United States Court of Appeals for the Second Circuit (*"Ives IV"*) appealed from herein should be reversed.

Respectfully submitted,

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IN THE

Supreme Court of the United States

October Term, 1981

DARBY DRUG CO., INC., INWOOD LABORATORIES INCORPORATED, MD PHARMACEUTICAL COMPANY, INC., PREMO PHARMACEUTICAL LABORATORIES, INC., RUGBY LABORATORIES, INC., and SHERRY PHARMACEUTICAL CO., INC.,

Petitioners,

v.

IVES LABORATORIES, INC.,

Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Second Circuit

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REPLY BRIEF OF PETITIONERS DARBY DRUG CO., INC., MD PHARMACEUTICAL COMPANY, INC., RUGBY LABORATORIES, INC., AND SHERRY PHARMACEUTICAL CO., INC.

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POINT I

Color Cannot Be Monopolized: Federal Courts Cannot Grant One Company the Exclusive Right to Use a Color on a Product Others Are Free to Sell.

At the heart of this case is a basic question: should any company have the exclusive right to use a particular color on a product which others are free to sell, thereby preventing competitors from selling the product in the color used by the originator?

Colors have never been granted trademark status by the patent office unless they are part of a fanciful design or symbol. (p. 14 of Darby's Main Brief) Neither have colors alone been granted trademark status by the courts via secondary meaning. (p. 15 of Darby's Main Brief)

It is particularly inappropriate to find that color has acquired trademark status through secondary meaning in this case where consumers do not choose their medication and color can play no role in the selection process, as might be the case if we were dealing with a product selected from a drug store shelf from among other competing products. The consumers of cyclandelate do not see the product until after it is purchased; therefore, color does not influence their choice.

If this court permits color to be used as a trademark in the case at bar, which does not involve consumer choice or selection, the principle thus established would be applicable to products which are chosen by consumers in department stores, supermarkets, drug stores, etc. Thus, the manufacturers of wooden matchsticks, fishing bobs, basketballs or the like would be entitled to establish color monopolies based upon allegations of "secondary meaning". There is no valid ground for departing from the doctrine already applied to matchsticks, fishing bobs, basketballs and the like that color cannot be monopolized as a trademark. (pp. 14-15 of Darby's Main Brief)

The fact that numerous color combinations may be available for drug capsules is not a valid ground for de-

parting from the principle that color cannot be monopolized as a trademark. A manufacturer desiring to sell his product in a single colored capsule does not have numerous colors to choose from. Moreover, courts should not be forced to decide in a multiplicity of law suits whether one company's shade of a particular color is sufficiently different from that of another company so as to avoid infringement.

Even if Ives did establish an association in the minds of consumers between the color of the product and a single source of origin (secondary meaning) by taking advantage of its patent monopoly for the many years during which Ives' blue 200 mg. capsule was the only one available, the courts should not grant Ives trademark rights in color. If Ives truly wanted to establish, in the minds of consumers, a relationship between the appearance of its capsule and the source of the product, Ives should not have relied on color alone to establish that association. Ives should have done what every other trademark aspirant has been required to do, i.e., create a fanciful symbol or design. Such a mark could be imprinted on all Ives' products, not Cyclospasmol alone, thereby truly informing the consumer that Ives is the source of products bearing such symbol or design. If imprinting numbers and letters on capsules is ineffective for "over fifty year old eyes", then Ives should devise some other printed symbol, e.g., a sunburst or a rainbow, that will be effective. Irrespective of the difficulty Ives may encounter in such a project, it should not be permitted to avoid altogether its duty to do so by using color alone as its trademark.

Such a remedy is still available to Ives. It is no answer that imprinting may be inconvenient or expensive. It is Ives that wishes to establish trademark protection for the appearance of its product, and therefore it is Ives' obligation to create a fanciful appearance and not rely solely on color to establish source identification.

Ives claims that a color monopoly is necessary to "alert" the consumer that there has been a change from the medication previously taken in order to counteract unscrupulous druggists. However, the evidence showed that unscrupulous druggists were not a widespread phenomenon. Ives resorts to defamation by innuendo, relying on a study done by the FTC regarding the 1950's which is not in the record, does not relate to present conditions and is of dubious relevancy due to the changes in state drug laws which have been made in the intervening decades. Moreover, Ives has various remedies it can use against the few druggists who engage in trademark infringement, none of which would inhibit competition from generic drug companies. Additionally, Ives benefits from the sanctions imposed by the various states against druggists who engage in passing-off (see Amicus Brief of the N.Y.S. Attorney General).

If colors cannot attain trademark status, courts should not be permitted to grant exclusive use of a color to a particular company by way of remedy, such as was done in the Second Circuit in the case at bar. The monopolization of color by a single company for a particular product should be prohibited, regardless of the rationale used to justify such monopolization.

The reasons for a color monopoly are particularly dubious in this case. The question is not, as Ives would have it, why must generics be made in the same color? Although we answered that question to the satisfaction of the trier of fact, the real question is—why should Ives get a color monopoly? The answer is, it should not.

We ask that this Court reaffirm the principle that color cannot be monopolized, and that federal courts cannot grant one company the exclusive use of a color in connection with a product which others are free to sell.

POINT II

Contributory Trademark Infringement Requires Culpable Conduct to Establish Liability, Not Just "Foreseeability" or "Reasonable Anticipation".

a. Contributory Infringement Requires More Than Foreseeability.

Judge Friendly, in *Ives II*, established the test for determining whether defendants committed contributory trademark infringement; i.e., if they suggested passing-off or mislabeling, or if they continued to sell to a druggist with knowledge or reason to know that the druggist was passing-off or mislabeling.

Ives never proved that a single defendant suggested, even by implication, that a retailer fill a bottle with generic capsules and apply Ives' mark to the label. Nor did Ives prove that a single defendant continued to sell capsules containing the generic drug which facilitated this type of

passing-off to a druggist whom he knew or had reason to know was engaging in such practices.

Judge Mansfield, writing for a majority of the Second Circuit Court of Appeals in *Ives IV*, avoided the dilemma presented by Ives' failure of proof regarding contributory trademark infringement. In *Ives IV*, the majority stated that the defendants could "reasonably anticipate" that their generic product would be passed-off or mislabeled, and that:

> "This amounted to a suggestion, at least by implication, that the druggists take advantage of the opportunity to engage in such misconduct." (*Ives IV* 83a)

Ives apparently recognizes the difficulty of defending the illogic of the Second Circuit, and does not base its argument on any "suggestion" made by defendants to the retail druggists who purchase their cyclandelate. Nor does Ives claim that defendants continued to sell to a druggist with knowledge or reason to know that the druggist was passing-off or mislabeling. At least in this respect, Ives is intellectually more rigorous than the Second Circuit, recognizing that the record contains no evidence of defendant's "suggestions" of "knowledge" of passing-off or mislabeling, either actual or constructive.

In place of the criteria set forth by Judge Friendly in *Ives II*, upon which the case was tried and decided against Ives in the District Court, Ives utilizes a venerable legal doctrine in a novel setting, "reasonable foreseeability" (page 26 of Ives' brief). Never has such a theory been taken from its rightful place in the law of negligence and used to invoke contributory trademark infringement.

As noted by the United States in in its amicus brief, an essential element of contributory trademark infringement should be a showing of active inducement or knowledge of wrongdoing, requiring a guilty state of mind (brief of amicus United States, pages 13-14). Ives would take the "reasonably anticipate" doctrine a step in the other direction—requiring only "foreseeability" of wrongdoing by a retailer to prevent the wholesaler or manufacturer from competing through imitation.

b. Ives Failed to Show That Infringement Was Foreseeable.

Even if "foreseeability" or "anticipation" were proper standards to apply to a contributory infringement claim, there is no basis for Ives' assertion that defendants could "foresee" or "reasonably anticipate" pharmacists' illegal activity because the vast majority of pharmacists are not cheats.* The sole purpose of Ives' pharmacy surveys was to show that a substantial number of pharmacists engage in illegal activity, and Ives failed to do so. The loaded shopping investigation conducted by Ives detail men in cities across the country, at pharmacies which they knew were "bad actors", revealed only 15 instances of illegal substitution. The pharmacy survey conducted by a survey company commissioned by Ives revealed only one

* Since the defendants' blue and blue/red cyclandelate capsules are properly and legally dispensed in the vast majority of cases, the capsules have an obvious non-infringing use. This distinguishes the case at bar from other contributory infringement situations, such as the sale of home video recording equipment, where one might argue that any use of the product causes infringement. Another distinguishing feature is the ability of Ives to locate and to sue the few law-breaking pharmacists who palm-off, there being no need to enter millions of homes for evidence of infringement as might be necessary in the home recording cases.

out of 83 pharmacies that dispensed generically and charged the higher brand name price.

Ives failed to prove that pharmacists are cheats—so even if "foreseeability" or "reasonable anticipation" of wrongdoing by pharmacists were a proper standard for finding contributory trademark infringement, they were not proved at trial. Recognizing its failure of proof, Ives relies on the FTC Report regarding the 1950's which is not in the record, was written at a time when the laws were different from those that exist today and which contradicts the testimony of respondent's own expert witness, the President of the New York State Pharmaceutical Society, that such misconduct by pharmacists is not widespread.

c. There Is No Causal Link Between Capsule Color and Mislabeling.

While relying on the inapposite doctrine of "foreseeability", Ives ignores totally that other venerable requirement of tort liability, causation. No one denies that imitation makes illegal substitution more difficult to detect —but that is not the same as showing that imitation causes illegal substitution. It is perhaps necessary to state the obvious lest it be overlooked: look-alike capsules do not cause illegal drug-substitution. Ives discovered the few instances of illegal substitution by shopping pharmacists with a propensity to pass-off one drug for another. Obviously, it is the propensity of a few pharmacists to engage in such conduct, not look-alike capsules, which causes illegal substitution.

Because the few instances of illegal substitution found by Ives were not sufficient to support its claim of contributory trademark infringement, Ives relied on its *mislabeling* survey to support its §32 claim.

However, capsule color has nothing whatsoever to do with mislabeling. While the defendants admitted the obvious, that imitation facilitates passing-off, no one conceded that color imitation facilitates or is related to mislabeling, and there is a total absence of proof that color imitation causes, facilitates or is related to mislabeling in any way. On reflection, it is apparent why this is so. Passing-off (or illegal substitution) is a practice engaged in surreptitiously by pharmacists, who therefore want to avoid detection while they convert to themselves the excess profit Ives would otherwise make if the brand name product were dispensed. Color imitation facilitates avoiding detection. But mislabeling does not result in excess profit. When a pharmacist "mislabels" he is filling a prescription that permits substitution, and Ives' mislabeling survey showed that only one out of 83 pharmacists charged the brand name price for generic capsules. There is nothing clandestine or surreptitious about mislabeling, as opposed to illegal substitution, and the pharmacist has no need to avoid detection. Therefore, he has no need of look-alike capsules to mislabel.

Since mislabeling is not done for profit, what motivates a pharmacist to mislabel? We suggest there can be only two possible reasons—either (1) he is unfamiliar with the law or the generic name and simply copies the word "Cyclospasmol" from the doctor's prescription pad to the vial label, or (2) he wants the patient to be assured that

there has not been a change in medication. In neither case would the color of the capsule play any role in the mislabeling. In fact, one can postulate that if the generic product legally dispensed were not imitative in appearance, the pharmacist would be more motivated to put "Cyclospasmol" on the label to assure the patient that his maintenance medication was not being changed.*

It is anomalous to prohibit color imitation on the ground that mislabeling exists, even if the practice were widespread, because capsule color imitation does not cause or facilitate mislabeling.

Moreover, even if the practices of mislabeling and passing-off were widespread, Ives is not entitled to an injunction against copying absent a showing that capsule color is an identification of the source of the product. *Wm. R. Warner & Co.* v. *Eli Lilly & Co.*, 265 U.S. 526 (1924). It was Ives' burden to make such a showing. The trial court held that Ives failed to do so and that holding is not clearly erroneous.

We ask the Court to reaffirm that contributory trademark infringement requires some showing of culpable conduct to establish liability—not just "foreseeability" or "reasonable anticipation". We also ask the Court to reverse the illogical and unfounded use of that doctrine by

* It is interesting that the act which Ives calls "mislabeling", i.e., using the brand name when *legally* dispensing the generic drug, is expressly authorized to doctors by N.Y.S. statute, which permits them to use the brand name on their prescription pads (and signing "substitution permitted") when directing that the generic product be dispensed. The legislature thus recognized that, in the prescription drug context, brand names are used generically by doctors.

the Second Circuit to fashion a remedy prohibiting defendants from competing with Ives by imitating the appearance of Ives' product.

POINT III

Ives Failed to Prove Secondary Meaning and, in Any Event, Evidence of Functionality Bars Ives' § 43(a) Claim Based Upon Secondary Meaning.

a. Ives Failed to Show That Capsule Colors Are an Indication of Source.

Ives skillfully avoids a central factual issue in the case, i.e., whether color signifies source of origin to consumers, by simply assuming that color must serve that function absent proof to the contrary. Ives presumes that the appearance of Cyclospasmol was copied with an intent to deceive consumers and that evidence which establishes that colors serve numerous functional purposes is an insufficient excuse for allegedly wrongful copying. Ives also contends that it need only establish that it was the first to adopt the product appearance; that the product was commercially successful; and that the product appearance was subsequently copied. There is no logical or legally cognizable relationship between those facts and the ultimate factual issue of what color actually signifies to consumers. If this were not the case, there would only be a single source of brown cola drinks. *Coca-Cola* v. *The Koke Company*, 254 U.S. 143 (1920).

There is, in fact, only one legitimate method for determining the state of mind of consumers with respect to color and that is to ask them. The patient surveys con-

ducted by Ives for that purpose were a dismal failure and led the trial court to conclude that they "did not constitute proof that the colors had acquired a secondary meaning."

In an attempt to justfy its approach to the secondary meaning issue, Ives relies heavily on the recent wave of decisions, primarily by the courts in the Third Circuit, barring generic drug manufacturers from selling identically colored pharmaceutical capsules and urges that the courts in those cases accepted, as proof of secondary meaning, the same kind of evidence presented here, while simultaneously rejecting the contentions of the generic manufacturers with respect to the functionality of color. It is precisely for that reason that the decisions in those recent cases are wrong and represent a departure from the long line of earlier cases refusing to grant an injunction against the copying of the color of a product. By holding that the mere act of copying creates a presumption of secondary meaning, those cases shift the burden to the defendants and require them to prove a negative—the absence of secondary meaning—rather than properly leaving the affirmative burden of proving secondary meaning with the party asserting the claim. It becomes apparent from a comparison of the earlier cases, which almost uniformly rejected claims that capsule colors could acquire secondary meaning, to the recent Third Circuit cases that the party who has the burden of proof cannot sustain it and therefore loses. Clearly, any attempt to shift that burden of proof to the copyist, based on the mere fact of copying, conflicts with the basic doctrine set forth in *Sears, Compco* and numerous other Supreme Court decisions holding that products in the public domain may be freely copied by anyone.

Ives has never directed any advertising or promotion to consumers which would have educated those consumers to the fact that all products sold under the name "Cyclospasmol", or having the appearance of "Cyclospasmol", emanated from a single source. Accordingly, the claim that secondary meaning exists is based on nothing more than the dubious assumption that patients have somehow acquired a belief that the appearance of a drug capsule is always exclusively associated with a single source. Given the fact that patients have played little or no role in drug selection, there is simply no basis for the assumption. In reality, respondent Ives and similarly situated brand name manufacturers are merely attempting to convert the actual exclusivity which they have enjoyed with respect to a particular product, as a result of patent rights or a lack of competition, into a legal conclusion of secondary meaning. The existence of *de facto* exclusivity does not prove anything with respect to secondary meaning. To the contrary, as the Court found in *Kellogg* and the line of case which follows it, such *de facto* exclusivity may well bar claims to exclusivity based on secondary meaning once the monopoly expires.

b. Defendants' Proof of Functionality Precludes a Finding of Secondary Meaning.

A further fundamental flaw in Ives' approach to the secondary meaning issue is the attempt to convey the impression that any failure by defendants to establish that the capsule colors are functional automatically establishes that the colors have secondary meaning. This is clearly not the law. The brief for the United States correctly points out, based on a long line of decided cases, including

Judge Friendly's decision in *Ives II*, that Ives must overcome two hurdles before it can obtain an injunction which bars the copying of color. First, Ives must establish that consumers associate the capsule color with a single, albeit anonymous, source. Second, even if Ives had established that secondary meaning existed, it would not be entitled to an injunction barring copying of color if the color had functional value, i.e., value apart from identifying the product with a particular source. As the Solicitor General correctly concluded:

> "Thus, a defendant could be held liable only if it copied the 'non-functional' features of another person's product and if, in addition, those features had acquired 'secondary meaning'." Brief, p. 25)

The apparent difficulty which exists in understanding and applying the foregoing fundamental legal concepts is demonstrated by the Solicitor General's own discussion of the secondary meaning and functionality issues despite his correct statement of the basic legal principles. The Solicitor General suggests that claims that capsule colors have therapeutic value or serve substantial other functions are insufficent to permit copying of capsule colors which have acquired secondary meaning. This hypothetical conclusion with respect to a state of facts (the existence of secondary meaning) which does not exist in this case, is based on the unfounded assumption that capsule colors which have significant functional purposes can acquire secondary meaning. The evidence of patient anxiety and confusion resulting from color change and the use of color to identify medications is probative evidence that, at least to that group of patients, the capsule colors signify the medication itself rather that a particular source of origin.

Accordingly, it is the claim that colors which unquestionably have functional attributes have also acquired secondary meaning which requires careful scrutiny and not vice versa as suggested by the Solicitor General. In the face of clear evidence that patients rely on product appearance for a variety of purposes unrelated to the identity of any source of manufacture, there can be no claim based upon secondary meaning.

POINT IV

Imitation of Capsule Appearance by Generic Drug Equivalents Does Not Deceive Consumers as to Source.

In place of logical arguments based on the evidence to show that Ives met the burden of proving defendants' suggested illegal activity or continued to sell to a druggist with knowledge, or reason to know, of his illegal practices, Ives and its amicus supporters rely on "red herrings" and scare tactics. The first such argument is that consumers are deceived by defendants' use of look-alike capsules.

Consumer deception as to source can only result from the misuse of a trade name or symbol which is associated with source. If capsule color is not shown to be a indication of source in the mind of the consumer, the use of capsule color cannot be deceptive as to the source of the capsule or its content.

There was no showing of an association between capsule color and source. A preponderance of the evidence was to the contrary, i.e., that patients or consumers asso-

ciate capsule appearance with the drug itself and its therapeutic effect. Typically a consumer thinks of his "red heart pill" or his "white blood pressure pill"—and not "his blue pill that comes from Ives." Judge Nickerson so found,* and his finding conforms to our shared experience that capsule or tablet appearance does not indicate that the product comes from a single source, as does a symbol or trademark. Look-alike capsules do not deceive the consumer about the source of the product. The look-alike capsule, rather than deceiving the consumer about anything, assures him that he is getting the same drug product he has previously received, but at a cheaper price.

The factitious concern of Ives and its amicus supporters for the rights of consumers, misleads the Court about the real issues presented by this case. Ives and the brand

* We should not be deceived by the sophistic argument that the finding of functionality by the trial court was a legal conclusion and not a finding of fact. The court heard conflicting testimony from expert witnesses on this subject—some saying that a change in color creates the impression that something is wrong with the medication dispensed, and others denying that reaction or minimizing its significance. The trier of fact heard the testimony and concluded that it preponderated in favor of petitioner's claim of functionality. That was his *job* and his finding should be respected unless it is clearly erroneous. Not even the majority of the Court of Appeals, straining to justify its reversal of the District Court, could declare the finding of functionality, based as it was on substantial testimony of professionals, clearly erroneous. The fact that the evidence of functionality was unpersuasive to the majority of the Court of Appeals, is irrelevant. The finding of functionality should stand. Moreover, it makes sense and conforms to our commonly shared experience that (a) capsule color is associated with the medicine and its effects, not with source; (b) a change in capsule color gives the impression that the prescription was filled incorrectly (an improper impression in the case of generic equivalents) and (c) capsule color is important for the large proportion of multi-medicating patients who put their pills in a single container for daily consumption and rely on color to communicate with their doctors and to follow their doctors' prescription instructions.

name drug companies are interested in profits—as are the defendants. Ives seeks to limit competition by placing the defendants at a disadvantage, depriving them of the right to sell a product in the appearance in which consumers are used to seeing it. The association of the product and its appearance was built up during the extended period of Ives' patent monopoly—not as a result of Ives' promotion of the product to consumers, which was insignificant because the product is a prescription drug. The real issue is not consumer deception or consumers' rights, as Ives disingenuously contends, but the competitive advantages associated with a patent monopoly, which Ives seek to extend into the post-patent period. Ives seeks, and was granted by the Second Circuit majority, the exclusive use of the colors associated in the minds of consumers with the product, to that defendants must sell the product in a way that will arouse suspicions that it is a different product, and will create confusion in following prescription instructions.

To the extent that pharmacists infringe upon Ives' trademark, Cyclospasmol, Ives and its brand name brethren have shown the ability through shopping surveys and investigations to root out the few who engage in such activity. Rather than attack the wrongdoers, Ives and its cohorts attack their generic drug competitors. A change in the color of prescription drug capsules, taken as maintenance medication over a long period, gives the consumer the impression that "there is something wrong with the way this prescription has been filled." Ives knows that anxious questions and late night emergency phone calls to doctors and pharmacists will be inevitable. Doctors

will also be reluctant to prescribe generically if the pills sold in unfamiliar colors make patient-doctor communication, and following prescription instructions, more difficult. Ives' hope is that these problems will lead to a higher proportion of doctors signing the "dispense as written" line on the prescription form, and to pharmacists refusing to stock generic products which are different in appearance from the brand name innovator's product. The motive is transparent; Ives seeks to impede competition, not mislabeling or illegal substitution.

POINT V

The Grant of Certiorari Was Appropriate.

Ives supporter, the Pharmaceutical Manufacturers Association (PMA), in its amicus brief, suggests that this Court improvidently granted certiorari inasmuch as the Second Circuit did not determine Ives' §43a claim. PMA's position ignores important facts.

The Second Circuit, in *Ives IV*, established a novel and dangerously expansive standard of liability for contributory trademark infringement under §32. This new doctrine can seriously inhibit competition and is an important issue worthy of this Court's attention.

Moreover, defendants are now enjoined from manufacturing or marketing their "look-alike" capsules and Ives has been granted a monopoly of color in apparent contravention of the principles prohibiting the granting of color monopolies and the principles favoring free competition as enunciated by this Court in *Sears* and *Compco*.

This Court has unquestionable jurisdiction to determine respondent's §43a claim. (*E.g., New York City Transit Authority* v. *Beazer*, 440 U.S. 568, 99 S.Ct. 1355, 1364 n. 24, 59 L.Ed. 2d 587 [1979]; *Ohio Bureau of Employment Services* v. *Modory*, 431 U.S. 471, 97 S.Ct. 1898, 1905, 52 L.Ed. 2d 513 [1977]; *see, generally*, Wright, Miller & Cooper, Vol. 18, Federal Practice & Procedure: Jurisdiction §4036 [1976].) When a case is filed in the Court of Appeals, this Court may grant certiorari, and the scope of review is approached entirely as a matter of wise judicial administration within a single system of courts. (Wright, Miller & Cooper, *supra* at p. 10.)

The law governing Ives' 43a claim was carefully considered by Judge Friendly in *Ives II;* the facts governing Ives' 43a claim were the subject of considered findings by the trial court (*Ives III*); and Ives' 43a claim was discussed in Judge Mulligan's dissent in *Ives IV* and briefed by Ives and other parties and amici. Contrary to PMA's assertion, the 43a claim may be addressed by this Court and the case need not be remanded should the Second Circuit be reversed.

Finally, if this Court determines that color cannot be monopolized under the circumstances presented by this record, Ives' claim under 43a must fail and remand would be unnecessary.

Conclusion

The judgment of the United States Court of Appeals for the Second Circuit (*"Ives IV"*) appealed from herein should be reversed.

Respectfully submitted,

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